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THE

SCIENCE OF WEALTH.

THE

SCIENCE OF WEALTH:

A MANUAL OF POLITICAL ECONOMY,

EMBRACING THE

LAWS OF TRADE CURRENCY AND FINANCE.

CONDENSED AND ARRANGED

FOR POPULAR READING

AND USE AS A TEXT-BOOK.

BY AMASA WALKER, LL.D.,

LATE LECTURER ON PUBLIC ECONOMY, AMHERST COLLEGE.

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PREFACE.

"The Science of Wealth" was first published by Messrs. Little, Brown & Co., of Boston, in 1866. From the sixth edition of that work, issued in 1871, the following has been prepared. It is a condensation rather than an abridgment; nothing essential having been omitted, while much new matter has been introduced. The motive for doing this has been twofold: first, to make the work more generally accessible,—better adapted to popular use; and secondly, and especially, to furnish a text-book on political economy, which in size, cost, and arrangement should meet more satisfactorily the present demand than any heretofore provided.

Whether these objects have been successfully accomplished in the present volume, others can more impartially decide than the author himself; but from the deep interest he feels in a science to which he has devoted the greater part of a somewhat protracted life, and his long experience with college classes, he is led to hope that he has gained that practical knowledge of the wants of the student which, in some measure, qualifies him for the task he has undertaken.

The work now offered the public, to teachers, and others, is intended to be entirely impartial.

Political economy can recognize no party interests, no national boundaries, no prescriptions, no assumed antagonisms between the industries of different countries or between the different parties to production in the same country. Founded, like every true science, upon the ob-

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servation of facts, its purpose is to show what those facts teach. It pays no deference to the opinions or the prejudices of mankind. Its only inquiry must be, "What is truth?" assured that in the answer to that question will be found the highest interests of humanity. Political economy may with great propriety be called the *universal science*, it being that in a correct knowledge of which every person, old or young, employer or employé, has a direct personal interest. It is not essential to the welfare of the State that every one should understand chemistry or astronomy, but it is of vital importance to the public welfare that every citizen should intelligently comprehend those laws by which the trade, currency, and finance of the country are governed. Public opinion, right or wrong, as expressed through the ballot-box, will control the legislation of the country, and determine its economic policy.

Fortunately the principles of this science are easily understood, when properly presented; and the experience of some twenty years with different classes has satisfied the author that students in general enter upon this study with greater alacrity, and pursue it with a higher zest, than almost any other. There is a sufficient reason for this, for it is at once discovered that every topic of which it treats has an immediate interest,—that the questions it discusses are those upon which they are certain to be called upon to act whenever they assume the duties of citizens in public or private life,—that while they might vote intelligently upon most subjects of public concern without any special acquaintance with many of the sciences, they could not, without a knowledge of political economy, act understandingly in regard to the trade and industry of the country and the relations of capital and labor.

In a country where every citizen has the right of suffrage, its legislation must ever be in accordance with the popular will. Whatever the people believe their interests

to demand, their servants, in the halls of legislation, will certainly grant, for they are sure to act in accordance with the views of their constituents, whether those views are right or wrong. Hence, if the people are so well informed as to demand wise enactments, they will have them; if they ask for measures injurious to their interests, they are equally certain to obtain them.

These considerations, the force of which no one can fail to appreciate, render a knowledge of this science of high importance in the estimation of all reflecting minds.

It may be added that the study of it need not be confined to those merely who are far advanced in general education. Common sense and a good knowledge of the English language only are requisite to its successful pursuit. Intelligible and plain, the science has no abstractions, no fanciful theories.

Although desirable that the instructor should be familiar with the subject himself, it is by no means indispensable. With a well-arranged text-book in the hands of both teacher and pupil, with suitable effort on the part of the former and attention on the part of the latter, the study may be profitably pursued. We have known many instances where this has been done in colleges and other institutions, highly to the satisfaction and advantage of all parties concerned.

A. W.

North Brookfield, Mass., 1872.

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POLITICAL ECONOMY.

BOOK I.

DEFINITIONS.

CHAPTER I.

CHARACTER OF THE SCIENCE.

Political Economy is the Science of Wealth, and professes to teach the laws by which the production and consumption of wealth are governed.

The term "political economy" is not a fortunate one, since it leads the popular mind to a misapprehension of what the science actually teaches, and confounds it with politics, or the science of government, from which it is distinct.

The relations into which these sciences enter are voluntary, and for the supposed advantage of both, not from any logical necessity to complete either. A just and efficient government of the state is important to realize the largest development of wealth, but only as a condition under which the laws of wealth, already complete and harmonious, may have their own proper sway.

Government cannot furnish a new power in man, or a new agency in nature. It can, to a certain ex-

tent, control the exercise of existing power, and the use of existing agencies; but it can control only by limiting them. Nothing is added through legislation. The science of wealth is complete in its own principles, though the statesman may think it policy to contravene them for a supposed good. Political economy is, then, silent before the law.

Political economy teaches the relation of man to those objects of his desire which he can obtain only by his efforts. He has wants, he needs food, clothing, and shelter; he wishes many things not vital to him. Together, these constitute his wants, in the view of political economy. This is the *first fact* of the science. It is the foundation of all. These wants can only be satisfied by efforts. This is the *second fact.* By it, man builds on the foundation laid in his wants. The objects or satisfactions obtained by these efforts are collectively called wealth, or those things which contribute to the welfare of man. This is the *third fact* to be noticed. The circle of political economy is here completed. It may hereafter appear that there is a perpetual progress, an unceasing self-multiplication; that each satisfaction creates a new want, which in turn seeks its object through an effort.

Let us make a formal statement of what we have obtained:

WANTS, EFFORTS, SATISFACTIONS; *or*,
DESIRES, LABOR, WEALTH.

The wants of man, in which are all the springs of wealth, are various, and change their place and form with times and circumstances. But they arise from

his nature. They are a certain and constantly-operating force. They commence with man's existence, and terminate only with his life; and, when all the desires of the individual are satisfied in the grave, and his labor paralyzed, the wealth he lays down in death becomes the possession of other men, with full strength and fresh desires; and so the creation of wealth goes on in ever-increasing circles, expanded by the central force,—the wants of man.

While the one element of wants or desires is secured in the constitution of man's being, the other element—viz., the relation of effort or labor to them—is fixed in the constancy of nature, and the permanence we attribute to the created world,—a foundation sure enough to build upon.

If, on the one hand, man's being were so constituted that his wants should cease, or be intermitted without any reason at the time, and without any assurance of return, or prove too weak to move the activities towards their satisfaction; or, on the other, nature were so disposed that labor had no guaranty of reward, resulting indifferently in good to the laborer, or in nothingness, or in positive injury to him who performs it,—we could have no science of political economy.

But, as man's being and nature's laws are found in experience, political economy is to be regarded as a positive science. Nothing in its fundamental principles is hypothetical or problematic. None of its methods are whimsical or accidental. Each thing is susceptible of clear demonstration. All its parts are calculable.

In his efforts to supply his wants, we have said,

man avails himself of the powers of nature, the fertility of the earth, the stimulating quality of the sun's rays, the agencies of wind, water, and steam; all the dynamical forces and mechanical supports at his hand. He must, therefore, recognize these, and know the laws by which they are governed. But such inquiries do not come within the field of the political economist. He takes them from the hands of the physical philosopher, furnished to his own use.

Let us say, then, that human nature in its wants, the physical laws which supply them, and the statistics of human industry in all its manifestations, are the material of our science.

Political economy is a science whose laws may be disturbed in their operation, or made perplexing to observation, by the legislation of the state. Practically, this is the great disturbing force which political economy has encountered in all the past. Wealth is the constant subject of legislation often in direct antagonism to its own laws.

The express purpose of much legislation has been to reform human morals by an external pressure on man's desires, or, at least, to reform human manners by denying all gratification of such desires; and this, not in the interest of religion, or for the safety of the state, but in matters of dress and equipage. Hence the laws of political economy are not only contravened by direct legislation, but are obstructed or perverted in many ways by false social and political opinions.

It will be easily recognized as a part of that human nature of which we have spoken, that the promul-

gation of principles whose legitimate operation threatens the overthrow of long-established abuses, or which interfere with existing customs, should excite prejudice and opposition. This is one of the chief difficulties the science has had to encounter from the first. Here we have the reason why it has made comparatively little progress, and is the only science that cannot obtain a candid and impartial examination from the mass of mankind.

CHAPTER II.

DEFINITION OF WEALTH.

Having now given the three great facts on which the science is founded, it becomes necessary to fix precisely the terms to be used in the further development of these inquiries. Political economy is unlike all other sciences in this, that it has not the option of making or choosing its own terms. From the nature of the case, it is obliged to adopt words in common use. It is encumbered with all the notions, false or loose, which may have been attached to these. It has to speak of wealth; of value and utility; of labor and capital; of production, exchange, distribution, and consumption. These are common phrases. Each has a variety of meanings in popular language; yet, when used in the discussion of this science, it must have one meaning as definite, exclusive, and precise as the

terms of natural history. The liability to confusion from this source can only be guarded against by being kept constantly in mind. Until the proper definitions become instinctive, so that they arise freely in their own shapes on the mention of such terms, there will be a constant slipping back, as it were, to their habitual meanings in common life. At the best, the laborious reference of the mind to formal definitions will tend to diminish the force of all representations and arguments where they appear. The greatest obstacle, however, encountered by writers, is not that arising through popular prepossessions in regard to words, but it is their own misapplication of language, confounding things essentially distinct, and clothing exact principles in expressions so vague and indeterminate as to make science impossible.

We have said that political economy treats of wealth; but what is wealth? In popular language, it is houses, lands, ships, merchandise, with a general "and so forth,"—all that we call property. In science, the term "wealth" includes all objects of VALUE, and no other.

The principle is cardinal. The science turns on it.

Political economy has been called the "science of values." No definition could be more strictly accurate; but we shall retain that already given, as being more popular, and as nearer to the customary use of the words. It is, then, the science of wealth, understanding that wealth consists of objects of value only.

DEFINITION OF VALUE.

What, then, is value? When does an article or commodity possess value?

When it is an object of man's desire, and can be obtained only by man's efforts. Anything upon which these two conditions unite will have value; that is, a power in exchange. Value is the exchange power which one commodity or service has in relation to another.

That such a power does exist is not a matter of dispute. Its influence is felt and acknowledged in every country, civilized or savage. This it is which excites to industry, creates commerce, and supports government. This power obeys laws as certain and immutable as those which appertain to any of the great forces of nature. Just as man is sure to feel wants, to put forth efforts, to realize satisfactions, so he is sure to be found exchanging an excess for a novelty, a home product for that which comes from abroad, the work of his mind for the work of another's body.

Again let us remark, that the term "value" always expresses precisely power in exchange, and no other power or fact. Desirableness is not value. Utility is not value. No objects are more useful and desirable than atmospheric air, the light of day, the heat of the sun; yet these have no value. They will exchange for nothing, because any one may have all he wishes without effort.

An object, to possess value, must be desired by some one who is willing to render a service or equivalent in order to obtain it, for the reason that he can-

not have it without. It is what a man gets, what another will give, that determines value.

It has been common for writers to speak of exchangeable value, intrinsic value, value in use, etc.; but all these terms are inappropriate. The adjectives are superfluous. To speak of exchangeable value is to speak of exchangeable exchangeability. The term "value," in the science of values, always implies power in exchange, and nothing else.

Of all the writers on the subject, no one seems to have been more full and clear in the definition and illustration of value than M. Bastiat, in his "Harmonies of Political Economy:"

"Theorists have set out, in the first instance, by confounding value with utility. This was their first error; and, when they perceived the consequences of it, they thought to obviate the difficulty by imagining a difference between value in use and value in exchange,—an unwieldy tautology, which had the fault of attaching the same word 'value' to two opposite phenomena" (p. 161).

"The theory of value," he further says, "is to political economy what numeration is to arithmetic. Value is the RELATION OF TWO SERVICES. The idea of value entered into the world for the first time when a man said to his brother, 'Do this for me, and I will do this for you;' they had come to an agreement: then, for the first time, we could say the two services exchanged,—*were worth each other.*"

The case of the blind man and the paralytic is given in illustration. The blind man says, "I have limbs: you have eyes. I will carry you: you shall be my guide." Each receives a benefit; their services are exchanged,—*valued* by each other. Here we have value appearing, not in material wealth, but in *services;* yet the principle is just the same as when the hatter says to the bootmaker, "I will give you a hat for a pair of boots," and they change accordingly.

They really exchange their mutual services, which have been put into the form of material objects.

Another illustration is given:

"I wish for water to quench my thirst; I go two miles to the spring and get it. My neighbor goes on the same errand. I say to him, 'Bring me water, and I will do something in the mean time for you; I will teach your child to spell.' Here is the exchange of two services: one is worth the other. Presently, I say to my neighbor, 'Instead of teaching your child while you are gone for the water, I will pay you twopence each time.' If the proposal is accepted, we say the service is worth twopence. If others in the neighborhood employ the same man to bring water, he becomes a water-merchant; and the value of water is as fully recognized as the value of wheat. The water, at first valueless, is now an article of wealth. It has not changed its chemical qualities, but services have become materialized, or incorporated with it. If the well, in the case supposed, were brought nearer to the village, the value of the water would be reduced, because less labor or service would be required to obtain it."

Suppose an aqueduct built by the joint labor of the community. The business of the human water-carrier has ceased; but not the less is the value of the water, delivered at the door, the product of labor. The labor has been invested with a permanent form, as pipes, walls of masonry, gates, etc. Labor has been *accumulated* for the purpose, instead of using the hourly labor of the water-carrier. The industry of the bricklayer and the plumber carries water years after they ceased to work on the aqueduct.

We have said that it was not the properties of the water that gave value; no more does the value reside in the mere delivery of the same. The water-works of some regions furnish them water on the ground, at the rate of a million and a half square feet a day to each square league. Yet the water has no value there; for the agencies employed are not the labor of man, but the currents of air,—Nature's pipes and conduits.

A diamond, as M. Bastiat observes, makes a great figure in works upon political economy, and he adduces an illustration which may be summarized as follows: I find a diamond. I am put in possession

of great value. Has it cost me great labor? No, yet some one will give me $10,000 for it. Why? Because he knows that it was a fortunate accident merely that gave me the diamond, and that he might search for years without finding one of equal value. The purchaser desiring it will give my price rather than undertake to find a similar one. His desire and the labor it might occasion him determine his estimate of the gem, not the labor it cost me; it is therefore true, that the value of the diamond is measured by *labor* equally with any other article.

M. Bastiat insists that value no more resides in the diamond than in air or water.

"It resides exclusively in the services which we suppose to be rendered and received with reference to these things, and is determined by the free bargaining of the parties who make the exchange. The pretended value of commodities is only the value of services, real or imaginary, received and rendered in connection with them. Value does not reside in the commodities themselves, and is no more to be found in a loaf of bread than in a diamond, the water, or the air. No part of the remuneration goes to Nature. It proceeds from the final consumer of the article, and is distributed exclusively among men."

Again:

"In order that a service should possess value in the economical sense of the word, it is not at all indispensable that it should be real, conscientious, and useful service. It is sufficient that it is accepted, and paid for by another service. It depends wholly on the judgment we form in each case; and this is the reason why MORALS will always be the best auxiliary of political economy. Economic science would be impossible if we admitted as values only values correctly and judiciously appreciated."

The main principle in the theory of value is expressed in the common phrase, "A thing is worth what it will fetch,"—that is, what some one will give

for it; the value depending on the will of the purchaser, as determined by his judgment. Value is the appreciation of services. The value of a thing is the service or labor which it will command in exchange.

If there is no resistance to the possession of an article, it can have no value. Labor alone does not always create value; but value never exists in an article, unless some one is willing to give labor, in some form or other, in exchange for it.

The ancients thus described the combinations of exchange:

Do ut des,	Commodity for commodity.
Do ut facias,	Commodity for service.
Facio ut des,	Service for commodity.
Facio ut facias,	Service for service.

This statement exhausts all the modifications of the principle.

CHAPTER III.

DISTINCTION BETWEEN VALUE AND UTILITY.

We have now gone over all the ground belonging to the theory of value: but we cannot leave it without dwelling awhile on one part of it; without clearly marking the boundary which separates it from the domain of utility,—a most troublesome and intrusive neighbor.

There is between utility and value a distinction as real as between weight and color.

Suppose a farmer in Vermont has one thousand

bushels of wheat; its value is two thousand dollars. Its utility is, that it will make forty thousand pounds of bread.

A farmer in Illinois has one thousand bushels of wheat, equally good; but its value is only one thousand dollars. Its utility is just the same. It will make as much and as good bread as the wheat of Vermont. The value, then, does not reside in the utility, but in the power in exchange. The wheat of Vermont commands a higher price than that of Illinois, because of its location nearer to the market. Here *location* means *labor*,—that is, the labor required to overcome it. This will be still more apparent if we suppose the farmer removed a thousand miles by land from any market. His wheat might then have no value; yet its natural, inherent utility would be as great as ever.

Take another illustration. A pound of small nails or tacks formerly had the value of twenty-five cents, equal to one-fourth of a day's labor. By the introduction of machinery, the value was reduced to ten, then to five cents, or the twentieth part of a day's labor; the utility remaining all the time as at first. The value of many articles, especially those called manufactures, are, in the ordinary progress of human effort, constantly diminishing, though never annihilated. This is because the labor or service to be appreciated in such values is constantly lessening, though it can never wholly disappear. In this is seen, not only the certain distinction between value and utility, but one of the most beneficent laws of the science, which may be stated as follows: Value moves, diminished constantly by the substitution of the gra-

tuitous agencies of Nature, by the ingenuity and industry of man. Utility remains fast anchored in the wants of man and the properties of matter.

Political economy makes no inquiry whether the increase of material objects of desire is, in truth and on the whole, a good. It assumes this. It leaves to others the discussion whether the highest interests of society are attained by repelling the kindness of Nature, and by denying the instincts of man. This kindness, and those instincts, political economy accepts, and goes forward from them. It can never become stoic. It is not a science, unless wealth is a good.

It is a science; and it has no doubt that the healthful, honest increase of physical necessaries, comforts, luxuries, and refinements, with the opportunities which they bring for mental improvement and moral culture, with the safeguards they place upon social order and personal rights, and with the manifold strong and subtle motives which they contribute to the exertion of all the human faculties, and the full, friendly intercourse of all communities and peoples, — it has no doubt that this is desirable. But it does not labor to prove it so. It does not found itself on any supposed refutation of asceticism. It takes without inquiry the universal inclination to the accumulation of wealth, under the restraints of mutual duties and common rights.

We have said that *Nature* adds *value* to nothing. Though unceasingly at work for man, she receives no compensation. She creates utilities beyond computation, but does all gratuitously. Wind, water, and steam are most efficiently engaged in produc-

ing commodities necessary to the welfare of mankind; and the earth is unceasingly active to bring forth man's food in its many forms. Yet all is done without adding to the wealth of the world. The forces "work for nothing," and hence confer no value. The power of the wind, for example, in propelling vessels, adds no value to the articles transported. But, it may be objected, would it not cost a great deal more to transport that merchandise, if it had to be done by human hands working at the oar? Certainly; and, from the very illustration, it appears that the power of the wind has not increased the value, but rather diminished it. It has taken the slaves from the bench, and does the merchant's rowing for him. It is Nature's work, not man's labor; and hence value goes down, while utility stands fast.

Transportation does, indeed, add to the value, but only because man's vessels and man's labor are employed in effecting it. All the natural forces that come in take off from value, because they reduce the amount of labor required in production and transportation. Take steam for an example in point. The services of this great agent in England are probably equal to the muscular effort of one hundred millions of men; but the whole of it is gratuitous. All that is required to secure these services is machinery and fuel, whose whole value has been given by labor.

If we look to the fertility of the land, by far the greatest of all the natural forces engaged in production, we shall find that it confers no value. Is it asked, "Why, then, do men pay for the use of it?

Why buy it at a large price?" The answer at length to this question will be deferred till the discussion of Rent; but it will be sufficient for the purpose of the present argument to say, that it is because appropriated or owned (whether rightly or wrongly) by individuals who can make a profitable use of it themselves.

CHAPTER IV.

DEFINITION OF LABOR.

We have defined value at great length and with various illustrations, with the result, to our minds, that it arises from the union of desire and labor; but we have not defined the latter term.

What is labor?

The voluntary efforts of human beings to produce objects of desire.

Labor is always irksome. This is law. Men do not voluntarily put forth their exertions, except for a reward. By the beneficent provision of Nature, habit assists our activities; great desires overcome the sense of weariness and pain; the impetus of one movement carries us on into the next. Toil has its compensations. Its fruit is pleasant and wholesome. But not the less is it, of itself, against the drift of man's natural inclinations. It is because men do not voluntarily put forth exertions, except for a reward, that everything which costs labor will, as a

general rule, command a corresponding amount of service or labor. Therefore it is that labor is the essential measure of value. Whatever disturbing causes there may be, it will, on the whole and in the long-run, be true that labor commands its equivalent in labor.

In this definition, we have spoken of *voluntary* efforts alone, because involuntary or uncompensated efforts are not to be classed as labor. They are merely the result of the use of a given amount of capital. Slaves are owned, like horses or oxen; and what value they confer is from their employment as so much capital. This distinction is not unimportant, because we shall see that capital is controlled by other laws than those which govern labor.

Under a free-labor system, as will be shown, there are two proprietors of value,—the laborer and the capitalist. Under a slave-labor system, only the latter has any share in the product.

DEFINITION OF CAPITAL.

Labor enters into production, or the creation of values, in two ways:

First. As the labor of the *present.*

Second. As the labor of the *past.*

We call the first "labor" simply; the second, "capital," which is accumulated labor. In their nature, these are identical. They have assumed different forms, have acquired independent rights, and each obeys certain laws peculiar to itself. These two forms of labor may be, and often are, owned by different persons. One man has present

labor at his command. This must be his own. Another has accumulated labor. This may be his own, or that of others, of which he has come into possession.

In practice, the two forms of labor must come together and help each other, if they would effect the barest subsistence of mankind. As society goes forward to plenty, comfort, luxury, civilization, the union and mutuality of the two become more intimate and vital.

The growth of capital, and the steps by which it comes to its proper position in the creation of values, may be best shown by a familiar illustration. An able-bodied workman presents himself to you, having the full disposal of his own powers, fully representing the labor of the present, and that only. We will, however, compromise so far with his necessities as to allow him to be clothed; though each article he wears has come from the labor of the past, and, in this supposition, is capital. He has no tools; and, if you have no work that can be done without tools, you must deny him employment. His chances, then, of labor are hardly as one to a hundred without tools. In the other ninety-nine, he starves for want of capital. But, by chance, you find work requiring no help from accumulated labor. You set him to clearing a field by throwing the stones into heaps. He has secured subsistence for the day without capital. It was uncertain whether he would obtain it. His livelihood to-morrow is still more precarious. But no: he carries away his earnings for the day. He chooses to lay them out in an axe rather than on any object of comfort or pleasure.

He has practised a self-denial. He appears the next morning with his axe. He has enlarged the sphere of his activity perhaps fifty-fold. He has now fifty chances of employment. Before the close of this period, he can, by thrift, provide for his immediate bodily wants; pay for his clothes, for which we gave him credit more in charity than logic; and become the possessor of a pick and shovel, scythe and rake. He is now a full farm-laborer, able to do any part of the strictly necessary work of agriculture with such tools as he has, and may rightfully expect employment every day of the year. So it is, in the grand field of the world's industry, that capital—the accumulation of labor—helps the labor of the present, not only to its immediate sustenance, but to permanent occupation, to increase, and to the highest economic civilization.

RELATION OF CAPITAL AND LABOR.

But this union creates the competing interests of labor and capital, since they are generally found in different hands. An interest is, in scientific meaning, a share. Each has now only a share. Before, each had the whole of its own product, but a most melancholy whole. They are competitors; for those shares are not determined absolutely in the nature of the union to which they have consented. It is by the earnestness and persistency of competition alone that either can secure its remuneration, or maintain its existence.

But they are not antagonists. All their effort, even in the severest assertion of their individual

claims, goes to the increase of the common property, and the advancement of their mutual service. Antagonism tends to destroy. Its purpose is, so far as it proceeds, to remove one or the other of the parties. The competition of labor and capital never ceases; but it respects the bond of union in which only each has its own full development.

Here we see the folly of the supposed antagonism. They are partners, and should divide the results of industry in good faith and good feeling. False philosophy, or unprincipled politics, may alienate their interests, and set them at discord. Capitalists may encroach on labor. Laborers may, in their madness, destroy capital. Such is the work of ignorance and evil passions.

However far such a strife may be carried, it must result in mutual injuries; and health can only be restored by obtaining the recognition of the full rights and obligations of each. The condition of well-being is peace. A false philosophy has set the world at war for ages, proclaiming that what one nation may gain another must lose. Such a philosophy has had its trial, extending over centuries of waste and terror; and is now, fortunately, dishonored through the whole civilized world.

Akin to it is the belief that hatred and retaliation are the normal relations of capital and labor, and that mutual distrust and hurtfulness are inevitable in all the developments of industry. Such a belief blasphemes the harmonies of Providence, — is sightless before the glorious order of man and nature. The cruel, shallow selfishness of capital has often robbed labor by means of law. Labor, im-

poverished, ignorant, degraded, has often turned upon its tyrant, and laid in a common waste church and state, letters and wealth.

THE GENERAL DIVISIONS OF THE SCIENCE.

1st. It being admitted that man has wants which he can satisfy from the world around him, and which he desires to satisfy as fully and easily as possible, we are first led to inquire in what manner this can be done most effectively,—how the forces at his command may be most advantageously employed; in other words, what are the laws which govern the PRODUCTION OF WEALTH.

2d. Since men have different capacities and tastes, —since they are placed in a variety of circumstances as to soil, climate, and civilization,—their products will be various; and yet, since all men desire nearly the same objects, an interchange of their respective commodities will become a necessity. Hence arises that department of industry called EXCHANGE, the laws of which it is the province of political economy to investigate.

3d. Almost all objects which men desire are produced by the joint efforts of several individuals. One contributes strength; another, skill; another, capital,—yet the product must be distributed among them all, and in just proportions. As this division, it is quite clear, should not be left to the caprice of individuals, but be determined by natural laws, it becomes one of the departments of inquiry upon which the political economist must enter. It is here his duty to ascertain what those laws are, and under

what circumstances and conditions they will effect an equitable DISTRIBUTION of the WEALTH which has been produced.

4th. As all commodities created by human exertion are designed for use, and as such use implies consumption more or less rapid, and as upon this depends the power and disposition for reproduction, the question of CONSUMPTION has a scientific place among the objects of our inquiry, and will be found to possess a practical importance second only to that of production.

These are the four great questions which suggest the general divisions of our subject; viz., production, exchange, distribution, and consumption of wealth.

BOOK II.

PRODUCTION.

CHAPTER I.

FORMS OF PRODUCTION.

All values are created by modifications of existing matter. Man cannot create one particle; but he can modify what he finds, or change its condition, in three ways; viz.:

By TRANSMUTATION, *by* TRANSFORMATION, *by* TRANSPORTATION.

First, by *transmutation.*

This is eminently the work of the agriculturist, who, availing himself of the chemical agencies of the earth and air, transmutes seeds into vegetables, fruits, and grains; and these again, by the aid of animal organizations, into butter, beef, hides, etc. This is the most extensive branch of industry, and employs probably four-fifths of the human race from generation to generation. It is the base of the great pyramid of production. It furnishes the material and the support of all other forms of labor; and not this only, but it renews and restores their waste with an unceasing supply of fresh bodily and

mental power. The air of trade and of the mill heats and rises, and cold currents rush in from the prairie and the mountain. The foot of the rustic is ever turned to the marts of commerce, and the busy gatherings of men.

Just as agriculture sends to the markets and the mills of the world their materials, so it sends them their workmen. Strength and even life go fast in the eager competitions of manufactures and trade. Cool air, fresh blood, flows in from the country to supply the waste. The bare, bleak hills, where Nature grudges every morsel of food, and stabs cruelly through every chink in the wall, every rent in the clothes, feed the busy cities with men. The streams of vigorous life run off from them to refresh the plains below.

Agriculture has no need to receive back, in any form, her contributions to the other occupations. The power to give without exhaustion lies in the liberal, healthful *reproduction* of man, when living in intimate relations with Nature. Here, after all its hurts, humanity comes for healing. War and pestilence, the fierce contest of the mart, the stifling atmosphere of the mill, may waste our kind in quick or lingering deaths; but still, by the side of the brooks, men will be born to hold up the frame of industry and social order when their supporters faint and fail.

But the department of agriculture is not confined to the popular view of it. When grain is produced, the seed must be planted in prepared ground, the long interval of growth to maturity must be filled with care and labor; and, at last, the work of

harvesting completes the round of duties that go to the production of the grain. But there are great industries in the department of agriculture, where harvesting alone is performed by man. Nature has done all the rest. Man's part is to find and to take of her bounty. Such an industry is mining,—whether of iron or coal, whether of diamonds underground in Golconda, or sponge under water in the Archipelago. Such an industry is the fisheries,—whether of whales off Greenland, of cod off Newfoundland, or of pearl-oyster off Ceylon.

Man modifies matter and exchanges its condition,—

Secondly, by *transformation.*

This is the business of the manufacturer and the mechanic. These create values by changing the forms of matter, as cotton and wool into cloth, iron into tools and implements. This is the second great department of human industry. Its ramifications extend throughout the world, yet not everywhere of the same vigor and extent. Since manufactures, as a whole, do not meet wants so primitive and absolute as does agriculture, they are, by a law evident in all industry, found not to be so equally diffused. Those needs which are peremptory and instant will, from that reason, tend to obtain their supply from the immediate neighborhood in which they arise. The nearer objects of desire approach to being luxuries, the more cosmopolitan they become.

The distribution of manufactures is governed by a variety of conditions, among which may be briefly stated the following:

1. The industrial genius of a people. Without

plunging into the deep questions of ethnical differences, or compensations in the whole of character, it is yet evident beyond discussion, that the active powers of every people have something of their own which they do not fully share with others. Were all the nations of the earth possessed of mental, moral, and physical qualities which could be positively estimated to be, in the sum of them, *equal*, it is quite certain that they would be far from *similar:* their energies would develop in different lines towards different objects. Patience and a kind of business faith distinguish some peoples, mark their features, and are impressed distinctly in the results of industry. Activity and daring speculation no less characterize others. To a class of minds thoroughly representative of more than one nation, mechanical contrivance gives the same glow of pleasure that rewards the painter for his years of toil.

2. The territorial advantages of a people, which are both positive and negative in their nature,—positive, as a people is endowed with water-power, and with the collocation of necessary materials, as of ore, coal, and lime for making iron; negative, as a people is not attracted to other branches of production by superior facilities. It is estimated that Holland has not agricultural capacities to supply a third of its population.

3. Great accidents, belonging neither to the essential genius of the people, nor its territorial endowments. Such are the transcendent discoveries in the sciences and the arts. Such are wars which exhaust nations, leaving them weak for generations. Such are persecutions, like that which scattered over the

continent six hundred thousand Huguenots,—the cunning artisans of France; like that which wrought devastation still greater in the "reconciled" provinces of Spain.*

But man modifies matter or changes its condition,—

Thirdly, by *transportation.*

The merchant does not primarily create value in objects, but enhances that already existing by transporting such objects from one locality to another.

The characteristic illustration is of the most familiar kind. Cotton bought at New Orleans, in 1860, for twelve cents per pound, transported to Liverpool, would have sold, say, for fifteen cents. By his capital and skill, the merchant has added twenty-five per cent. to the value or exchangeability of the cotton. He has increased the wealth of the world so much. He, therefore, has produced value. Such transactions are useful alike to the producer and to the consumer of the articles transported.

In so far as the transportation of products gives them value, it belongs to the present general division of the subject; but its methods and agencies are so unlike those of the other forms of production, it is governed by laws so peculiar and complete in themselves, it composes so large and easily separate a department of inquiry, that it is, for the discussion of its principles, placed as a general division of the science under the title of "Exchange." To com-

*"Our manufactures were the growth of the persecutions in the Low Countries."—EDMUND BURKE, in his speech to the electors of Bristol.

plete the sphere of production, we recognize here the share it has in creating values; but the means by which this is effected, and the impressive phenomena exhibited in the operation of this agency throughout the entire world, are set apart for special consideration.

We have thus gone through the three forms in which man modifies matter to create values,—transmutation, transformation, and transportation. The inquiry will at once occur, whether these exhaust all possible efforts in production. The answer may come out more clearly if we proceed by an illustration.

The chemist has been ranked, by some scientific writers, among the agricultural class, because he so aids and directs the processes of Nature as to produce objects of value by changing the elementary powers of acids and alkalies into salts, etc. That is, he transmutes. It seems more accurate to say, that he belongs among producers just so far as he assists in any one of the three forms defined.

The division we have made of production into three modes seems to afford the best view attainable of the subject. It will be observed, that these are not distinct forms in which labor appears, as in so many moulds; but that they result from an arbitrary classification of individual efforts, according to the best reason of the case. The whole authority of such a classification consists in this,—that it seems more complete and definite than any other which is offered. All these forms of productive effort may be united in a single commodity; and, indeed, there are but few products which do not contain them all.

CONDITIONS OF THE HIGHEST PRODUCTION.

If labor, through some form, produces all wealth, we are led to inquire into the circumstances and conditions that increase or diminish the efficiency of this great force. That there are mighty variations as it appears in different countries, and even in adjacent communities, is so manifest as hardly to require mention or illustration.

If the wealth of any nation cannot be determined merely by the proportion of its population to that of the world, or of its territory to the general mass of the globe,—as it clearly cannot,—the question, Why? introduces us to the discussion of all those influences which directly or indirectly, immediately or remotely, make one to differ from another. These may be classed as follows:

DIVISION OF LABOR.
CO-OPERATION OF CAPITAL.
ECONOMIC CULTURE.

CHAPTER II.

DIVISION OF LABOR.

IN some countries, a man wishing for a chair goes into the forest, fells a tree, carries the timber to his workshop, forms the parts, and puts them together into a chair. It is a rude and imperfect article, but it has cost him the labor of two days.

In other communities, we find a chair, equally

serviceable and far more elegant, produced by the labor of half a day. Here one man cuts the timber, another transports to the mill, another saws it into suitable dimensions, another forms the legs, another the seat, another the back, another puts the parts together, while still another paints it. A great many chairs are produced by the combined labor of many individuals; and the result is, that one chair has the value of only half a day's labor. Three-fourths of the labor employed in the making of chairs is, then, liberated, to rest in idleness, or to apply itself to further production with still increasing results, as the desires which control efforts shall determine. We cannot be ignorant, that, in some communities, labor, when set free, does waste itself in idleness and frolic. But this is true chiefly of those in which leisure is bestowed, not by man's contrivance, but by the generosity of Nature.

But it may safely be assumed, that such an industrial genius in a people, as seeks to lessen present labor by the distribution of its several offices, will find fresh objects of desire. The very thoughtfulness and care, the social confidence, and mutuality of service, which are required to effect a division of labor, insure such a susceptibility to new industrial wants as shall necessitate the employment of all the labor so relieved.

The full discussion and illustration of this principle, which governs the use of labor saved, belongs to the third inquiry; viz., that of "Economic Culture." We have here, strictly, to show only how labor *is* saved by the division of employments. This forms the great fact of modern industrial civilization.

We shall find it the most important condition of production, multiplying all its powers faster than the soil multiplies the seed. Here is more of the explanation of wealth than can be found in all other inquiries. This force is being rapidly introduced into every department of industry, and will finally become as general as the nature of the different employments will admit. We do not find that it has yet reached its ultimate limit in any sphere of human activity.

What is the significance of division of labor, as expressed in the fewest words? It is, that each workman confine himself to a single operation. In this way all great and successful manufactures are carried on.

CHAPTER III.

THE ADVANTAGES OF DIVISION OF LABOR.

1st. It gives increased dexterity. All common observation testifies how rapid and accurate our motions become, when confined to a single operation. The powers of his body are in perfect discipline. They have learned their parts, and obey instantaneously and harmoniously. The more simple the movement assigned, the greater will be the efficiency of performance.

2d. It allows the workman a better knowledge of his business. This is to the mental powers what the first is to the bodily. It gives intellectual dexterity. The man has a mastery of his special operation. He

knows more about it than if he had two things to think of and care for. He becomes shrewd in every motion. He adapts his labor to the material; he discriminates between the qualities of that material. He meets the little difficulties of his work with more skill and less waste.

3d. It saves time, in passing from one work to another. In the making of a chair after the primitive fashion we have supposed, a great deal of time will be spent in passing from one part of it to another, from the place of one operation to that of another. It is not a loss alone of the time physically necessary in effecting the transition, but each operation will leave something to harass the mind in the other. During the first part, the attention will be distracted by what has just been left. During the last part, the attention will run on, anticipating what is to come. The shadow is cast both ways upon the mind.

4th. It facilitates the invention of tools and machines. If a treasure of gold or iron or oil is hid under the ground, the discoverer is more apt, other things being equal, to be the man who owns the land, and resides and works on it, than a casual visitor. So, if there is possibility of adapting foreign forces to the production of values, the inventor will, on the same condition, more probably be the workman than any one else; he is constantly engaged upon the operation; he desires, of course, to simplify it, since it is a law of mind to do as little work as possible for a certain result; he knows the wants of the subject; he knows all the capabilities of his material; he thinks about it all the time, and can

try an experiment without changing his place. Therefore, by the logic of Nature, he invents.

5th. It secures the better adaptation of physical and mental abilities. No consideration is more vital than this. The work which man finds to do, the efforts he has to make for satisfactions, however high his wants may rise, will be of the most various character, and require the most diverse powers. There are operations which demand great strength; others, rapid motion; others, good judgment; others, a mechanical eye; others, fidelity and trust; others, high intelligence and education. Such qualities, even those purely physical, are not found equally in all; nay, by the compensations of Nature, they are generally, though not necessarily, found apart. Therefore, unless work were divided according to the several qualities required, a deficiency in one would neutralize all the others, and exclude the workman from employment, or compel him to work at great disadvantage.

The extensive applications of this principle will occur to every mind. Each man finds the sphere of his highest usefulness as he is endowed by Nature. Those who are gifted with education and ingenuity devote all their time and energy to duties appropriate to such powers. They thus confer on others the advantage of their own gifts, and are themselves spared from drudgery and uncongenial labor. The poorest in qualifications, also, find a place in which they can produce within the great partnership of society. Women are enabled to undertake business of the most delicate and important character, to which their strength is sufficient; while children of

all ages take parts that would otherwise occupy men. The power saved or gained, by such an adaptation of talents to special branches of industry, is incalculable.

And not merely do all find in a proper division of labor their full occupation and fair reward, but the work of each is just as truly productive as that of any other. The boy who watches crows does as much at that business as the bravest and greatest of earth. He takes the place of some one who goes away to do a larger work.

6th. It increases the power of capital in production, tends to concentrate manufactures in large establishments, and reduce profits.

Supposing all men equally capable of carrying on independent business, which is not the case,—if we compare seven men each with a capital of $1,000 and one man with a capital of $7,000, we shall find the economical advantage greatly in favor of the latter. The former must do business on a small scale, and purchase materials in small quantities. The latter can buy at wholesale prices, can afford to go often to market, and to keep himself well informed, and will sell as well as buy to great advantage.

In addition to this, the large manufacturer can afford to work for a smaller rate of profit.

A single hatter, for example, who makes only $2,000 worth of hats, must secure 25 per cent. in order to have a net income of $500; while the man who can make $20,000 worth of hats will, if he realize only 12½ per cent., have an income of $2,500.*

* The shoe trade affords a conspicuous illustration in point. At the beginning of the present century it was almost wholly carried

We see from these illustrations why the great establishments drive smaller ones out of the market. A tendency to a reduction of profits is a natural consequence of this. Therefore, other things being equal, it is desirable that manufacturing establishments should be sufficiently large to secure all the advantages of concentrated capital, and effect the complete division of labor.

7th. It shortens apprenticeship.

Every art, trade, or profession must be preceded by an apprenticeship, more or less extended, according to what is necessary to be learned. A trade which, in order to be perfectly understood in all its parts, requires an apprenticeship of seven years,—if it be subdivided into seven different operations, may, it is evident, be obtained with as great a degree of perfection by an average, in each branch, of one year's service. Some of the parts may require more than one year, others less.

Now, we find this to be practically true; and the result is a great saving of time, and time is money.

For example:

Seven men serve seven years each to learn to make hats, —in all, a service of	49 years
Seven men serve one year each to learn to make a seventh of a hat, equal to	7 "
Saving of	42 years

on by individual mechanics working in small shops and requiring a "kit" costing but a few shillings. Now vast factories are erected, steam or other power applied, a large variety of labor-saving machinery introduced, and the business is carried upon a scale of surprising magnitude; one establishment in Massachusetts producing 6,000 pairs of boots and shoes *daily*. Of course a very small percentage of profits must give a great annual income.

in the mechanical education of every seven men employed in this manner.

Apply this principle to the manufacturers of Massachusetts, which has at least 75,000 skilled workmen, and suppose the apprenticeship to be seven years, we have—

75,000 at 7 years each	525,000 years
75,000 at 1 year each	75,000 "
Saving of	450,000 years

in one generation of skilled workmen.

If we suppose these years, saved from apprenticeship, to have an average value of $200, we have a saving of $90,000,000 *for each generation* of skilled workmen in Massachusetts.

The principle, under which this saving of time is made, cannot be disputed.

8th. It gives opportunity for greater social development, and increases the social power of labor.

This is immediately of moral interest; but it has important economic bearings. The principle itself is indisputable. Not only is the workman brought near his fellows, and, by such contact, stimulated to industry, to acquisition, to taste; not only does such association of purposes and means afford more of the instruments of intellectual advancement,—schools, lectures, churches, journals; not only does the close neighborhood of mind quicken and brighten all the faculties, teaching by example, and firing by controversy; but, by such association, workmen are brought nearer their employers, have a greater sympathy and co-operation, act intelligently and harmoniously as to their rights, and form a public opinion among themselves which has often been found a great power, economically and civilly.

CHAPTER IV.

LIMITATIONS TO THE DIVISION OF LABOR.

But the great principle of division of labor, so very beneficial in its operations, is yet limited by certain conditions, which it cannot disregard.

1st. When the principle has been so far applied that each operation has been made as simple and fully a unit as human ingenuity can devise. Beyond this, there is no division, but only *repetition.* Any attempt to refine the process so far as to give the workman less than one naturally complete motion of the body, will only embarrass and delay industry.

2d. When the concentration of capital has become so great that interested personal supervision cannot be brought to bear upon each department, and upon the whole enterprise, with sufficient intensity to insure efficiency and fidelity on the part of those employed, and harmony in the general conduct of the business. Beyond this point, the advantages derived from the power of concentration are neutralized. It may become mischievous. It is well that there should be limitations, because they prevent such aggregations of capital as would swallow up the whole industry of a state.

3d. Where the industry consists of an indefinite number of parts, yet the special circumstances will not allow each workman profitable employment in

a single operation,—for example, agriculture in most of its branches: first, from the fact that its operations cannot be sufficiently localized; and, second, from the necessities of the seasons. No department is capable of so much subdivision as this; yet, in practice, none experiences so little. In mining, the fisheries, and many incidental matters, it is effected to a considerable extent; but, in most of the parts of pure agriculture, it has very limited range.

Generally speaking, the farmer is a laborer of a thousand duties.

This fact alone does not account for the different productiveness of the manufacturing and the agricultural interests. In the nature of their objects, it is found that machinery must be applied to them in far different proportions. The mechanic arts, which can be localized to the highest degree of concentration, and made general to all seasons of the year, admit also of prodigious multiplication by artificial agents. From these considerations, we deduce the principle, that the value of agricultural products, as a class,—that is, their power in exchange for products other than agricultural,—will be constantly increasing. A bushel of corn, in 1820, would purchase only four yards of cotton cloth. In 1860, it would purchase ten yards of the same or better quality. This difference will continue to grow wider and wider as the mechanic arts advance; but not indefinitely, inasmuch as the materials of manufactures are always themselves of agricultural origin, and hence the depreciation of the price is limited.

We have thus far spoken of the division of labor as applied only to direct, material production, affect-

ing the laboring classes, and those immediately superintending them; but the principle has been extended to mental labor, as well as that which is simply muscular.

The recognition of professions and industrial classes is itself a tribute to the great principle of the division of labor; but it proceeds still further, to assign special functions, within those professions and classes, to individual members. Thus the law, when a sufficient concentration of legal labor is secured, branches into the departments of titles and conveyances, of insurance, of marine losses, forfeiture and salvage, of patents, of criminal jurisprudence, etc. In medicine, the eye, the ear, the skin, consumption, fevers, cancers, have each their own practitioners.

That science and skill are promoted by such subdivision, and that the immediate efficiency of professional labor is greatly increased thereby, cannot be intelligently questioned.

As any community advances to a higher civilization, specialties are more and more resorted to. Individuals, finding themselves peculiarly adapted by their talents and tastes to a particular calling, or having unusual advantages for the pursuit of it, give themselves up to that object. They concentrate upon it their thoughts, their time, and their resources. They excel. They know more, and can do better, in their chosen line than those about them. This gives them position and power. They are sought for, are looked to, because they have something that is wanted. No matter how humble his station, or how minute his field of investigation, if a man under-

stands something perfectly, his world—whether a hamlet or an empire or the race—will resort to him. He becomes a benefactor of society.

CHAPTER V.

THE DISADVANTAGES OF THE DIVISION OF LABOR.

1st. It tends to enervate the laborer, because it does not, as a general fact, give full activity and development to all the functions of the body.

In the material occupations, it is found that confinement to a single operation is often highly injurious. There are forms of labor which sufficiently exercise the several parts of the body. But there are those which require the constant fatiguing use of some member, to the injury of the rest of the body; others require a cramping posture that oppresses and disorders the vital organs; others still require the workman to poison his blood with unwholesome gases. In the great centres of capital and labor,—whether we regard the mill, or that larger mill, the city itself,—it is notorious that distortion, paralysis, and organic feebleness are more common than where labor is diffused, and the laborer changes his work and his place frequently.

That this will occur in the course of all manufacturing industry is probable. That it is inevitable does not so clearly appear. The sanitary arts keep even pace with the advance of machinery. The civil war in America developed astonishingly the re-

sources, which are at the command of government, to suppress malaria, and reform the habitations of disease. The growth of manly sports, and the cultivation of gymnastics for health's sake, are likely to work a great change for the better in the sanitary conditions of our people. Besides, a gradual reduction in the hours of labor is very certain to take place with the introduction of improved machinery. Once twelve hours constituted a day's work in the factories of New England. Eleven hours has since been adopted, and now, in many cases, ten hours constitute a day's work. A strong effort is being made to secure that number of hours as the maximum for all women and children. This is not only humane and just, but truly economical; since it cannot admit of a doubt that ten hours is the utmost limit at which the health and longevity of those classes can be preserved, while no small children, if allowed to work at all in factories, should be employed more than half a day.

Mechanical operations were formerly considered as disqualifying for military service; and even our modern philosophy has found in them a reason for the employment of mercenaries, and the maintenance of standing armies. But the great civil war just referred to exhibited the novel fact, that, beyond all dispute, the troops raised in agricultural districts are not so hardy in the privations and exposures of camp and field as those coming from the towns. This does not, however, imply a better state of health at home. It may be, that the latter class find, in the constant exercise and the out-door employment, just that *change* of habit and condition which they needed. All that is different from their usual course of life is

in the direction of more air and light and motion; while the agricultural laborers find no change except for the worse.

2d. This system, in some of its applications and in certain degrees of extension, does not give that full employment and expansion to all the powers of the mind which its normal development requires. This is obvious. The mind, if intensely devoted for a whole life to a single effort, and that perhaps of the most simple kind, cannot but be unfavorably affected. Unless counteracting influences are resorted to, it will undoubtedly be contracted and enervated.

To this liability are opposed three compensations:

a. The great communicativeness observable in such circumstances, the eager discussions, the free inquiry, the school, and the lyceum.

b. The saving principle that the employment of one member is, to a certain extent, the employment of all. The human faculties, mental and physical, are a knot. They interpenetrate so completely that it is impossible to move one without affecting the rest. The special use of one may develop it greatly; make it more strong and active than the others. But such a predominance is not distortion. Few minds are capable of even and temperate growth. In this principle resides the variety of human character. It may be questioned whether any but the most gifted can be educated in any other way so thoroughly and efficiently as by interested application to some single matter. Generalization and broad philosophy rouse the full powers of but few intellects. In the majority of cases, it will remain

true that intense, spirited, persistent labor directed to one point is better than the languid, nerveless, unspurred, rambling play of all the faculties.

Indeed, the argument against division of labor on this score would be better expressed by saying, that the constant repetition of single acts so far dispenses with thought, and even with consciousness, in the operation, that it makes man, in some sense, a machine. This is, to a considerable extent, true; the compensation being that it affords a greater opportunity for discussion and reflection, if the workman chooses to avail himself of the kind of mental leisure which is afforded by the monotony of his occupation.

c. The laborer is not all workman. While his special occupation provides for his subsistence, and endows him with energy, industry, and concentrativeness of mind and character, he has other hours and other duties, ample, if reasonably used, to compensate for all the evil mental effects of his continuous toil.

It will be observed, that it is only to the division of labor *beyond a certain point*, that the objections we have discussed have any application. A more ill-developed society, with more ill-developed members, could not be conceived than where this principle was not applied to all. In fact, there could be neither members nor society; but here and there a savage would bask in the summer sun, or hide himself in the storms of winter, in hopeless, helpless barbarism.

However we may speculate, *a priori*, on the consequences of dividing minutely the parts of labor, we

may perhaps get a stronger light and a better view by observing the mightiest experiment of industry ever known in the world,—that of England to-day. Nowhere are the natural advantages of agriculture more apparent; nowhere has manufacturing been more elaborated. Yet no person can be cognizant of the condition of the English population without being assured that the manufacturing, laboring class is far above the agricultural in intelligence, in independence of character, and obedience to law.

3d. It will follow, from what has been already urged, that division of labor, in its greatest extension, has a tendency, or at least there is found in it a liability, to lower the average of health, to shorten life, and prevent the natural increase of population.

All these results are found, on examination, more or less, but still above the general facts of the country, in all the great centres of manufacturing industry, where the full possibilities of the mechanic arts are realized by the intense subdivision of labor. This result can only be partially and confusedly shown by statistics: still enough can be extracted to assure us that there is a great loss of vital energy, whether or not it is necessary to such a state of industry.

The American average of life may be expressed nearly as follows:*

Cultivators of the earth	64 years.
Active mechanics out of shops	50 "
Active mechanics in shops	47½ "
Inactive mechanics in shops	41¾ "
Laborers, no special trades	45½ "

* Massachusetts Registration of Births, Deaths, and Marriages.

These statistics, accurately gathered and showing the results of many years, require correction in several particulars, if the real lesson of them is to be obtained. In the first place, two-thirds of the class of mechanics as presented here are engaged in such occupations as do not allow any very extended subdivision of the parts, so that the average of the great manufacturing establishments and their dependent cities would be found still more striking. In the second place, the agricultural occupations are continually making contribution to manufactures of their best blood and bone, renewing the natural waste of the mill and shop, and so interfering with the statistics of the subject. This element can neither be eliminated nor determined. So important is it at times, that Lowell appears on the tables as one of the healthiest cities of America. It is unquestionably true that much of the historical feebleness and mortality of such places has been avoided by more humane and intelligent precautions, by gymnastic sports and out door games, and by a better adaptation of all the conditions of production to the necessities of life and well-being. But the great fact which accounts for this seeming healthfulness of a manufacturing city is the constant infusion of the fresh, vigorous, young blood of the country.

4th. The division of labor lessens the number of those who do business on their own account. The result of this, in agriculture, is to absorb the yeomanry into the class of those who labor by the day or month, with no interest in the land. The result in manufacturing is to subordinate hundreds of operatives to the control of a single will. This

has a threefold relation: *a.* To the formation of character. Something of independence and self-respect is unquestionably lost, so far as these depend on external conditions. Position and responsibility do foster and strengthen manliness and self-mastery. By the division of labor, the independence of each is sacrificed to the good of all. It will not be doubted, that, on the whole, it is desirable that it should be so; nor can it be denied that there are partial drawbacks, even in this plain tendency of civilization. It is the sacrifice man has to make in society, in industry, in government. *b.* To the fairness of remuneration. A very few now participate in the profits. The great bulk of workmen receive only wages, and that on temporary engagements. This disproportion may be excessive, and is likely to be where laws or institutions check enterprise, and discourage individual effort. In such cases, laborers are practically a herd of cattle, driven about from place to place, receiving bare subsistence, and unable to mend their condition. But, even if we come forward from the barbarous state to that in which the work of man has divided itself into numerous trades, each of these, however, yet remaining distinct, and compare this with the present state, in which trades have been repeatedly subdivided,—capital aggregate and labor subordinate,—we shall yet find that the share of the poorest laborer in the mighty product of our industry of to-day is greater than ever before. Augustus, says Arbuthnot, had neither glass to his windows nor a shirt to his back.

Thus much could be urged of the wretchedest

operatives on the earth; but, when we regard the condition of labor as it exists in nearly all the countries of the world, we shall quickly confess, that, though the laborer has given up his share of profits, he receives back, as wages, far more objects of desire than he could have obtained in the old way. *c.* To the steadiness of employment. By the attraction of labor to great centres, the fate of many laborers is made dependent on that of a few capitalists. This is a great fact, scientifically and historically. It must continue. It has issued, in the past, in the form of great industrial distresses, of a general suspension of *mechanical* labor from causes affecting only the *mercantile* credit of the employers, of frantic appeals for support, of laws in which government assumes the duty of providing work for its whole population, of riots and revolution. So far as this will occur in spite of prudence and careful management, it is the condition on which we have the advantages of division of labor.

Where capital is concentrated, it is stronger, protects itself better; and, of course, the workman shares in this power and immunity. Where the industry of thousands is controlled by the mind of one, it will be more intelligently and harmoniously administered, and with a larger view of the business. By such superiority of union in production (for that is synonymous with division of labor), the industry of a country is lifted clean over obstacles which individual enterprise could not pass,—is preserved amid storms that would shatter the feeble fabric of single hands.

But when the blow becomes so heavy as to shatter

even the great workshops of modern industry, and they come down, then truly the fall is great. The ruin is more complete than if the storm had prostrated a village of huts. The reservoir of gathered power has burst; the springs have long since been broken down; the wells been filled up; and there is no supply for immediate wants. Such a loss is repaired slowly. Independent has been discouraged by collective industry; the shop has been abandoned for the mill; each workman has learned only the fraction of a trade; no one can buy, make, and sell; no one dares to undertake any business, foreseeing that the corporation must rise again. For awhile, all is distress. It is only when the stately fabric of associated industry is reared again that plenty is known in the land.

We have discussed, somewhat at length, the relations which division of labor holds to the condition of the laborer, by depriving him of the opportunity to do business on his own account. Until recently, it has been supposed that the advantages of the principle could not practically be obtained without this defect; that capital could not be concentrated, and the trades perfected, without diminishing the independence and self-reliance of labor. But recent developments seem to be anticipating the objection. It is now a matter of common practice to admit the laborer to an interest in business,—a share in profits. This is done by merchants to their salesmen, by master-mechanics to their workmen, by ship-owners to their hands.

5th. This system, as it necessarily occasions the concentration of the laboring classes, and thus

affords opportunities for intercommunication, naturally gives rise to labor combinations and strikes, —a subject to be discussed hereafter.

We have passed through the discussion of the advantages, the limitations, and the disadvantages of the division of labor.

If, now, we inquire on which side the balance lies, there will be no question that it is in favor of the application and extension of the law. It appears as the great multiplying power of modern industry; it has made the difference between barbarism and civilization; it resides in man's being as the principle of help; it is the only name that savage nature fears.

CHAPTER VI.

THE CO-OPERATION OF CAPITAL.

This is the second grand condition, through which the productiveness of labor is increased.

We have before spoken of capital: we now proceed to define it strictly.

It is that portion of wealth employed in reproduction.

The distinction involved is an important one. All capital is wealth, but all wealth is not capital. Since it is recognized that human wants create others of their kind, and hence go on increasing in number and urgency, it is necessary that human efforts should find some force having a corresponding

rate of increase, by which to assist themselves in supplying the growing demand. Such an agent is found in capital which is taken out of wealth.

A man may have much wealth, and use little capital. Wealth is as it is *had;* capital, as it is *used.* For example, a man may live in a house worth thirty thousand dollars, and have ten thousand dollars invested in a ship, from which he derives all his support, and which forms his capital. It may be asked, is not the house itself capital? It is, so far as necessary to production, in sheltering the producer and his family, even with the style and comfort usual to such a degree of society. Beyond this, it ceases to be capital. It is devoted, not to the creation of values, but to personal enjoyment and culture; noble and worthy ends for wealth, but not for capital.

We may change the supposition. The man may have a house worth ten thousand dollars, and ships to the value of thirty thousand dollars. The difference to production will be apparent, inasmuch as his active capital now consists of three-fourths of his wealth, while before it was only one-fourth.

It will follow from this illustration, that there is much of the wealth of the world which it is difficult to classify whether as capital or not, much in which the two ends unite, much in which the share devoted to reproduction is doubtful. Still, this casts no discredit on the distinction itself, which stands manifest to all.

ORIGIN OF CAPITAL.

How does capital arise?

From the net savings of labor. A person who earns five hundred dollars a year, and places one hundred dollars of it in a savings-bank, or invests it in land or machinery or railroad stock, or anywhere at work, has increased his own capital and the capital of the country by so much. It is not what he lays aside for use in his own occupation merely, but for use anywhere.

All capital comes in this way. A country increases in capital just in proportion to the increase of capital accumulated by its members. If the individuals of a nation apply none of their net income to reproduction, there is no increase of the national capital. If they withdraw any of their capital to meet personal consumption, the country becomes poorer.

Many of the considerations which pertain to the accumulation of capital, and the ultimate use of it, belong to the discussions of economic culture, or go further on, to the general division of "Consumption." We have simply to do with those principles which apply existing capital to the wants of present labor.

Capital is known as "fixed" or "circulating."

Fixed capital consists of every description of property employed in production, which, from its nature, cannot be advantageously changed to any other use than that for which it was originally designed. The land, buildings, and tools of the farmer, the ships and warehouses of the merchant, the machines and implements of the manufacturer, belong to this class.

They must be used for the purposes to which they are particularly adapted, or they have little value. They are fixed. The ship cannot be used as a wagon, or the spinning-jenny as a locomotive.

Circulating capital, on the other hand, consists of those articles or commodities which can be readily changed from one purpose of production to another. Of this class are the stock and produce of the farmer, the money and wares of the merchant, the raw materials of the mechanic. These are easily transferred from one business to another, and indeed from one place to another, and may be used in a great variety of forms. Of all these, money is the most mobile, as it can be changed without delay or loss to any occupation or locality.

Fixed is, in its nature, more permanent than circulating capital, not merely in its adaptations, for its name implies that, but in its existence. The greater part of circulating capital—stock and materials, for example — is held only in the immediate view of transmuting or transferring or transporting it, so that it shall pass into fixed capital. There, on the contrary, it has taken its ultimate form. If it loses this, it is only by destruction. It does not intend to assume any higher condition.

It is in this way that fixed capital receives the mighty annual additions which astonish us on the page of the statistician. The products of last year form a part of the houses, ships, railroads, and machinery of the present. The farmer adds something to his stock, or his land, or his buildings. The mechanic widens his shop, and multiplies his tools. The merchant enlarges his business, and extends his

connections. The laborer saves something out of his wages, beyond the demands of immediate subsistence. It is in this way that fixed capital is increased by the contributions of circulating capital.

In popular language, all wealth is divided into real estate and personal property. This distinction, if not scientific, is convenient for occasional use. We must bear in mind, however, that, while all real estate is fixed, all personal property is not circulating capital. Ships, machinery, and many other things not attached to the soil, are personal property, though standing in the category of fixed capital.

PRODUCTIVE AND UNPRODUCTIVE CAPITAL.

Is the distinction between productive and unproductive capital real? It has been urged by many writers at considerable length. It is susceptible of much illustration. It involves many important considerations.

There is, however, no such thing as unproductive capital. There may be misapplied wealth, misused wealth, wasted wealth; but capital reproduces. If any discrimination is necessary between that portion of wealth which is applied successfully to reproduction, and that which is intended for such an end, but fails in attaining it, we may say that capital is that portion of wealth applied to reproduction, which secures a compensation to its owner. Whatever his intention, if he uses any part of his wealth without multiplying it, it remains wealth; he has not made it capital; it may, by unproductive use, cease even to be wealth. Wealth put into an enterprise which

results in nothing is no more capital than wealth put into a house which burns down.

Nay, more: so far as wealth thus applied, while making some return, fails of securing the fair, average remuneration of capital, it so far ceases to be capital. It may be wealth merged for a time; it may be wealth lost forever: it is not capital.

A complete illustration of this principle is found in common business. Suppose a man to be possessed of fifty shares of certain stock, par value one hundred dollars. The enterprise does not succeed; the stock does not pay adequate dividends; the value of the shares has sunk to fifty dollars. Would any one say that his capital, so far, was five thousand dollars? Clearly, it is but two thousand five hundred dollars. Half of his investment has been sunk; half is capital.

But it has been urged that much capital is reproductive that does not afford a remuneration to its owner. For example: a railroad is projected and built, does not pay; its stock sinks to nothing; yet, though it does not pay dividends, it improves the industry of the country through which it passes.

We have nothing to do, in the discussion of production, with any such incidental advantages, even if they exist. It may be that, in the *consumption of wealth*, we shall find principles explaining the effects of such an investment.

In the light of production, however, we can only say that, in so far as the railroad does not remunerate its owner, it ceases to be capital. So far as it is supposed to promote agriculture or manufactures, and indirectly help the industry of the community,

it is simply on the level of the gratuitous gifts of Nature,—the powers of the wind, rain, and sun, or the courses of streams and valleys; assisting man unquestionably, but having no value, being neither capital nor wealth. A canal that does not pay for its building is no more capital than a river.

CHAPTER VII.

UNION OF CAPITAL AND LABOR.

Having considered the two great agents by which all wealth is created, viz., capital and labor, we come to speak of their union, and to inquire under what circumstances it will be most effective.

1st. When a due proportion of each is found. Labor halts without capital; capital wastes without labor. Which shall govern the other? Which shall be the fixed quantity to which the other must conform? Labor, certainly, because it is less variable in amount. It can be diminished or increased but slowly, depending as it does on the propagation of the human race; an element that is determined positively, in the old countries, to a very gradual growth, and, in new countries, has never more than doubled itself in thirty or forty years. Capital, on the contrary, is liable to very rapid fluctuations; can be accumulated, under favorable circumstances, with great ease; and can be wasted or scattered just as fast under different conditions.

Labor, then, being that which is most restricted

in quantity, capital must, in order to the highest production, conform to it. There must be as much capital as labor requires, not as much labor as capital needs. We do not put this on the ground of any superior rights of labor. Capital is the labor of the past, and has rights as perfect as that of the present. It is certain there should be as many tools as workmen needing the use of them, else some must stand idle. It is equally certain that an excess of tools will not aid in production. Capital is the instrument of labor, and should, of course, be adapted to the power of the laborer and the work to be done.

What this proportion should be in any community, it would be impossible to declare beforehand, as it is even impossible to decide precisely what it is in fact. Still less could a proportion be determined which capital should bear to labor in all communities. It is plain that this will vary according to the occupation; as, for instance, we have seen that in agriculture there cannot be so general application of machinery as in the manufactures; while, on the other hand, because its operations cannot be localized or made independent of the seasons, the number of tools is thereby greatly increased; each farmer requiring certain tools, yet not using them to their full capacity at any season, and letting them lie idle for months.

The mechanic, on the other hand, while he uses a greater share of tool-power, has it yet so arranged that the tools lie idle little of the time.

It is plain that the proportion will vary, also, according to the natural advantages a person or community enjoys.

By the census of 1860, "the real and personal property of the Union was valued (slaves excluded) at $14,183,000,000."* A calculation made at the Treasury Department estimates the products of 1860 at 26·8 per cent. of the wealth of the country at that time. Without intending to vouch at all for the correctness of this estimate, it is doubtless approximately true; and, if so, we shall be surprised, if we look at the large proportion of annual product to the accumulated wealth of the nation. If, for the sake of convenience, we call the annual product 25, instead of 26·8 per cent., we find that it amounts to $3,545,750,000 per annum. It certainly appears almost incredible that the total amount of wealth accumulated in the country since its first settlement should be only equal to four times the product in 1860; but such we understand to be the statement. If so, it shows what an immense proportion of all the wealth annually produced is annually consumed. From these figures, too, we may make an estimate of the proportion of the product which belongs to labor and capital. Allowing for the use of the latter ten per cent., in the shape of interest and rent, or use, the amount will then stand thus:

Aggregate national wealth, $14,183,000,000, at 10 per cent., is $1,418,300,000, which deducted from the whole product, as before, of $3,545,750,000, will leave us the share of labor, $2,127,450,000, or about two-thirds of the whole.

From these statistics, we find that the whole national wealth is only equal to about seven times the *gross earnings of labor* for a single year.

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* Report of the Secretary of the Treasury, 1865.

We have also an opportunity of comparing the wealth and production of the United States with Great Britain. The estimated wealth of the latter, according to Leone Levi (see his work on Taxation, page 6), is $30,000,000,000, or $1000 per capita; the estimated yearly production, $3,000,000,000, or $100 per capita. The wealth of the United States, according to the foregoing figuring, and taking the whole population, as in 1860, at 31,443,321, is $451 each; while the amount of *product* per capita is $112 each: so that, while Great Britain has more than double the capital, she has less annual product per capita. This is a confirmation of the well-known fact, that capital and labor, interest and wages, are at least double in this country what they are in Great Britain. We must not confound the annual product with the annual accumulation: the latter being but a small fraction of the former.

Capital should, at least, increase in a degree corresponding to the increase of population. If it does not, labor is crippled, wages fall, and starvation eventually ensues. Ireland may be quoted as an illustration. Her soil, wrested from the people by conquest at different periods, from the reign of Henry II. to the battle of the Boyne, has passed into the hands of foreigners, who draw away annually all her surplus products. Population increases from year to year; but capital does not increase correspondingly. Nay, even the waste of the soil and of implements is not fully and honestly supplied.

What is the necessary consequence? Increasing poverty, and ultimate starvation or emigration. We

have said that capital is formed from the annual savings of labor. Four million pounds a year go from Ireland to absentee landlords, and eight million pounds are taken away every year in taxes. The Irish people can make no savings. There can be no increase of their capital. Starvation or emigration is their inevitable fate.*

Is it possible that there should be a surplus of capital?

It is evident that there may become such a surplus, if we assume that production itself does not expand in the mean time. Given a certain industry, within defined limits, it may become full and overflowing with its accumulations. By economy and thrift, these multiply fast, and crowd their barriers. Common observation shows this to be often true, with the enterprises of individuals. The excess is transferred to other branches, or withdrawn for personal gratifications. A seamstress, who, by saving, obtains a sewing-machine, has a wonderful help in her industry; but a second sewing-machine would not assist her a single stitch.

The same is true of special occupations. The limit of profitable production being reached, the amount of capital employed cannot well be increased. The product, being generally in the form of circulating capital, now flows off to other business, or is turned to purposes of adornment and culture.

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* From 9,000,000 before the famine in 1846, the population fell rapidly to a little over 4,000,000. At this point the equilibrium was so far restored that wages rose to a rate sufficient to secure to the laborer a decent subsistence.

The same is also found true, though more rarely, of entire communities. States and cities sometimes reach the limits within which they desire to use capital in their traditional industries. They become bankers for the world, or direct their profits to sumptuous houses and works of art.

It is evident, then, that, within the bounds of present occupations, capital might easily attain a surplus, increasing as it can more rapidly than population. It is productive only as applied by labor; and therefore its production is limited by the capacities of labor.

But in fact, and on the whole, the limits of industry do not remain the same. Wants expand, as we have seen. Capital is relieved from its former employments, and goes on to new efforts.

Yet we are not to anticipate the same rapid progress at all times and everywhere which we see in a new country like our own, full of wants, and stimulated to efforts. Capital has its checks, just as population has. Theoretically, steady increase is certain in both: practically, each meets obstacles; is lost here, and checked there. The forces which operate to stay it may be briefly summed up as follows: a certain disinclination of capital to emigrate; the lessening power of personal supervision from a distance; and a distrust in the administration of foreign laws.

Another constant force operating against the increase of capital is found in those wants of man which do not look to reproduction. The desire to spend is just as truly in human nature as the desire to earn, and can be as accurately calculated. Hence

it follows that, as the desire to earn loses power by capital becoming plenty and cheap, the desire to spend gains force.

Yet capital, when it has supplied the demands of labor in its own vicinity, has gone abroad to colonize. It has carried on great wars in which it had no interest, has developed the resources of infant states, and saved old nations tottering to their fall. Capital has gone round the world in the same boat with the inspired discoverer.

2d. The union of capital and labor will be most effective, when each is sure of its just reward. If the rights of man as a holder of property are sacred, and his rights as laborer equally so, the greatest motive to production can be secured. If otherwise, the creation of wealth will be restricted. Men will not work or save, unless sure of their reward.

There cannot come, out of the earth or heaven, a blow that levels all industry in the dust so quickly and hopelessly as wrong done between labor and capital.* Pestilence, drouth, or floods do not so thoroughly and permanently prostrate the strength and hopes of a country as a breath of suspicion on the union of the two great agents of production. Then comes an antagonism, indeed, fatal to both. There is hardly any climate or soil so unpropitious that man will not struggle on, earning his livelihood with much endurance, and laying something by for the future. There is hardly any government so rigorous as wholly to suppress the energy of its

* It will be recollected that production carried on by slaves is done wholly by capital: the producer being a chattel, the whole product is that of capital.

people. There is hardly any taxation so exhaustive that something still cannot be got out of Nature for man. In all these difficulties, the motive to exertion is not destroyed. But if foul play or legal fraud comes between labor and capital and their reward, the very life of industry ceases at the thought. The spring of work is broken. Its admirable parts and its cunning mechanism are useless, motionless.

Labor is the first to suffer. Its wants are instant, immediate, vital. Capital, in such economical convulsions, has the privilege of leviathan. It can dive down to the depths, and give up breathing for awhile. If labor goes under, it dies.

It is familiar to every reader of history how the brutal rapacity of the Spanish conquerors terrified the nations of Peru and the Antilles, and shut up the treasures of the New World in a secrecy that even torture could not break. The wisdom of the man that owned the hen that laid the golden egg has been embodied a thousand times in the acts of government. The result is never the enriching of one: it is ever the ruin of all. Wealth itself becomes valueless, since it has no security in possession, and only excites the cupidity of the common tyrant.

3d. The union of labor and capital is most effective when the latter is appropriately distributed. Capital creates no values by its own powers. It must be joined with labor. Somebody must use it, bring his personal energies to bear upon it, set it in motion, watch its operations, work with it. The farmer, the merchant, the manufacturer, must each bestow constant attention on the capital he employs, or no good will come of it. The more intense and

vigilant the application, the more certain the return, the larger the profits. This is a well-known practical principle; and from it follows that the point will be reached where an individual has so much capital under his control that his entire efforts, by himself and those working under his direction, are not sufficient to secure its greatest effectiveness.

Such limitations are highly beneficial to society; for, were there no restrictions of this kind, were capital in vast aggregations equally efficient as in smaller bodies, the business of the world might be controlled, and the profits appropriated by a very few persons.

The point is of great importance. Such a concentration of capital as effects the highest division of labor, and the fittest application of machinery, is desirable for the interest of all; and for those purposes, and up to such a degree, capital so concentrated has a wonderful power in production. But its aggregation, merely, is a hinderance rather than a help. After the two advantages spoken of above are once secured, capital becomes potent and beneficial just in proportion as it is distributed. By such distribution, it comes closer to labor and natural advantages. It makes use of various powers; it defends itself better in emergencies; it adapts itself more shrewdly to peculiarities of circumstance; it has a keener intelligence of the public wants; it commands a greater amount of executive talent; it superintends its *employés* with more accuracy.

The man who is to gain by the work is brought nearer to it. He is well served, because he serves himself.

For a long time, it was a favorite belief with the American people, that corporations were the most efficient agents of production, even where the work was not so great as to be beyond individual enterprise. The older wisdom of the country turns more and more to the smaller establishments, which secure full, interested personal supervision of labor. The English economy has always preferred these, except where the operations were beyond the reach of ordinary capital.

4th. The union of capital and labor is most effective where there is the greatest freedom of industry.

Whenever a population is sufficiently intelligent to understand its own interests, it should be left to direct its own labors. Its industry should never be interfered with by government. In all countries which may be considered as enlightened or civilized, like the European and Anglo-American, the people have no occasion to look to government for direction as to the business they shall engage in, or the manner in which they shall conduct it. Every branch of industry, in a normal state of society, grows spontaneously out of the wants and capacities of the people. Tillage, manufactures, commerce, fisheries, spring up in the places to which they are best adapted.

But our immediate topic relates, not to acts of government, based on a distinct purpose to change the general course of national industry,—which will be more appropriately discussed elsewhere,—but rather to those which impose minor restrictions; directing the modes of labor, moulding the forms of capital, and prescribing the conditions of their

union. All limitations of the rights and powers of capital or labor, not required by the public morality or security, are useless and mischievous.

CHAPTER VIII.

ECONOMIC CULTURE.

We shall best define the field of this agency by discussing one of the most severely contested questions of political economy, viz.:

What is the distinction between productive and unproductive labor?

The form of this question is unfortunate, and has caused the greater part of the confusion prevailing on the subject. In itself, it is of slight importance; but, in the course of the discussion, a very grave matter has become involved with it, helping the understanding of neither.

Dr. Adam Smith insisted strongly on the distinction between productive and unproductive laborers. In the former class he embraced all those who produce material objects, which are generally admitted to be of use and benefit to mankind. Such, clearly, are farmers, mechanics, and merchants, in the general application of their industry. Of unproductive laborers, he says, "In this class must be ranked some of the greatest and most important, and some of the most frivolous professions, — churchmen, lawyers, physicians, men of letters of all kinds, players, buffoons, musicians, opera-singers, opera-dancers, etc."

This somewhat extended list by Dr. Smith has suffered curtailment by almost all writers since. The distinction between physical and mental labor, between direct and indirect agency in production, could not long be permitted to remain as founding a distinction between productive and unproductive labor. It is clear that the physician who preserves the life and strength of the workman on the farm or in the shop is equally productive with him; and that the lawyer by whom transfers of property are effected, and personal safety secured, is equally productive with the owner or the overseer.

One occupation after another, "important or frivolous," was withdrawn from the unproductive class, as prejudices disappeared in the light of a better philosophy, and as the part of each in the great economy became manifest; so that now little is left of that sweeping condemnation of unproductiveness passed by the father of the science upon the learned and artistic professions. Yet there is a residuum, which it is our purpose to notice.

All labor, in the economic sense, is productive. The only office of labor is production.

Labor is defined as the efforts of man directed to the satisfaction of his desires. Every effort that is not so directed is thrown away. It is wasted power, not labor. If I spend a twelvemonth in the invention of a machine, which, when completed, is of no sort of use to any one, and for which I can get nothing, my exertions have been unproductive. I have worked enough for a reward; but, as it proved, my work was not directed to the satisfaction of human desires.

THE FIELD OF ECONOMIC CULTURE.

But it may be asked, Does it make no difference to the community what objects of labor are selected, and by what means these objects are attained? Certainly; and, in this inquiry, we reach the field of economic culture, which is that education of the desires, that instruction of efforts, and that use of satisfactions, which will unite to bring out desires, efforts, and satisfactions in ever-increasing circles of industry. Here arise, properly, all the important questions which were formerly discussed under the head of productive or unproductive labor.

Now it can be asked with effect, whether the opera-dancer, the physician, and the churchman are useful; whether they expand the desires, instruct the efforts, and dispose the satisfactions of men to a constantly enlarging industry.

Let us inquire closely. It will be readily granted that these and other similar classes may have influence upon, or power in, production in two forms, either primary or secondary.

Primary, where a direct part is taken, an active agency maintained, in the creation of values.

Secondary, when an effect is produced, which, by modifying human capacities or desires, however indirectly and in whatever degree, brings about ultimately a greater creation of values.

For example: that great class which, in various offices, maintains civil justice and order, has indisputably a primary influence or power by rendering possible the present creation of values, and by watch-

ing over their keeping and transfer. Government and the law are great agencies of production. Without them, however desirous people might be of wealth, and however capable of effort, little or nothing could be produced. Robbery and violence would scatter and destroy what already exists, and a universal waste would speedily follow. But they have, also, a secondary power or influence; for it is found that the maintenance of peace and property rights awakens new and increasing desires, widens the horizon of ambition, and stimulates everywhere to honest industry. Civil security is an education for wealth, an economic culture.

Then that great class which teaches has both a primary and a secondary power and influence,—primary, in that it gives instruction to present labor, as it is struggling to-day with the difficulties of production; explains chemical and mechanical laws; and establishes the alphabet, the written letter, electric communication, the rules of book-keeping, and the art of navigation: secondary, in that the progress of mind brings it infallibly to higher stations of aspiration and activity.

The work of the physician is almost entirely of the primary character. He saves the lives of producers, and preserves their strength to labor. This secondary power or influence of his profession, if such exists, is distant and trivial.

On the other hand, we shall add nothing to the dignity of the churchman or priest or minister, by attributing to him any direct power in production. Yet his part may be no less important because secondary. The influence of religion is hardly less

marked than that of race, in the creation of values. If its influence tend to improve the morals, and thus aid in the preservation of public order; to elevate the mind, and thus give it nobler and higher aspirations, and a better appreciation of the right uses of wealth,—it must be a great auxiliary to its production.

That class of agencies which we have designated as primary comes within the view of production. The class of secondary agencies belongs to the department of consumption, which treats of the use of wealth, so that it may bring forth more wealth.

Here, in economic culture, is the point at which production, passing by exchange and distribution, comes into relation with consumption. In pure theory, production and consumption complete the economic good, which is reproduction. The harvest which is gained in production is sown or wasted, as the case may be, in consumption, to reappear in a more abounding harvest, or in barrenness, in reproduction. Practically, however, we have to introduce the laws of exchange and distribution, as the agencies by which production is finished, and consumption made possible.

We have used metaphors drawn from the chemistry of agriculture to express the significance of economic culture. To illustrate from mechanics, we should say that it treats of the reaction of labor. No force can react except from something external. Labor is a force directed to an object. The energy with which it is to move in a new direction will depend on the temper and shape of the body on which

it impinges. Reproduction, then, is the rebound of production from consumption.

If labor expends itself on objects that do not stimulate to further efforts or serve as instruments to further production, but rather debauch the energies and corrupt the faculties, it is evident that reproduction will be lessened and debased, and the whole course of industry be downward.

If, on the contrary, labor expends itself on objects that present fresh and urgent desires, and excite to renewed activities, it is evident that the course of production is upward; and the people will rise economically, with a rapidity and force, such as signalized the career, in the fourteenth century, of Florence; in the seventeenth, of Holland; in the eighteenth, of England; in the nineteenth, of the United States.

BOOK III.

EXCHANGE.

PART FIRST.—TRADE.

CHAPTER I.

THE PRINCIPLES OF TRADE.

EXCHANGE has its origin from the division of labor; and the further that division is carried, the greater extension is given to exchange. If each man supplied his own wants by his own work, trade could not exist. But, so far from this being the rule of industrial society, the article to which a man devotes all his labor may be such as he never used, perhaps never saw used.

Exchange is that agency which brings a man what he wants for what he does not want, which furnishes gratification for his desires out of objects which are adapted to gratify few or none of his desires.

As the division of labor begins in the most savage state, so exchange is known there. One goes into the woods for venison; another, to the river for fish. At night, they divide. Half the fish is given for half the meat. Perhaps other parties are introduced. Instead of exchanging the whole of their fish or venison, each of the two gives a portion for a trinket, and another portion to the medicine man

for herbs which he alone knows how to collect. We have here brought in exchange, not only in regard to the plain necessaries of life, but to the services of science and to luxuries. Yet all this occurs in the daily life of the savage. Only one went for venison; four have venison now. Only one went fishing; four have fish to eat. The hunter and the fisherman have trinkets and medicine they know not how to get.

"Trade" is a technical term for the sum of all actual exchanges. It is exchange realized.

There are several kinds of trade:

1st. Domestic or home trade, which includes what is commonly known as the coasting trade.

2d. Carrying trade, in which the carriers have no interest in the commodities beyond their transportation.

3d. Foreign or international trade, to which the word "commerce" is generally applied.

These kinds of trade are subdivided into the wholesale, retail, and jobbing trades; and specialized indefinitely as the iron, cotton, shoe trades, etc.

Whence does trade arise?

From the desire which individuals and communities have for each other's products. It is evident that this is essential to trade; since, if peoples produced by themselves all they wished for, there could, as we have said, be no occasion for an exchange.

To what extent can trade be carried?

To the extent of the surplus production of each individual or nation. Given the aggregate surplus products of all the people of a country *severally*, and we have the amount of its *entire* trade. Given the

aggregate surplus products of the people *collectively*, and we have the amount of its *foreign* trade.

Illustration: Suppose a community of one hundred individuals, each producing three hundred dollars' worth a year,—aggregate revenue, thirty thousand dollars. If each person desires to consume only one hundred dollars' worth of his own articles, he will have left for trade two hundred dollars' worth,—aggregate in the community, twenty thousand dollars. But if, after exchanging around with his neighbors, it is found that each member of the community has one hundred dollars which he does not wish to part with for anything he can get at home, we have the aggregate surplus available for foreign trade, ten thousand dollars.

It will, of course, be remarked that the amount of surplus, in particular countries, will vary with the character of their products. We can suppose an entire people engaged in industry, of which they make no use themselves. In such a case, their trade would be to the amount of their whole production and their whole consumption. In fact, this condition of things is never realized. The nearer it is approached, the more general the trade. The more vital and primitive the articles produced, the greater will be the share consumed at home. Ohio has no such trade, proportionately, as Rhode Island; not necessarily because the latter produces more, but that she produces more of what she does not want. The people of Birmingham consume but an infinitesimal part of the articles they produce.

We have here the principle that the wealth of a people is not determined by the extent of its trade.

What persons or communities will trade most largely with each other?

Other things equal, those whose productions differ most.

Two tailors will not traffic much together. Both will trade with the shoemaker and hatter. Indiana will not trade extensively with Illinois; but both will trade largely with Louisiana and Massachusetts. Russia and Sweden will make very few exchanges, because their productions are so much alike. Both will deal largely with the West Indies.

What determines the character and kind of products each country will afford?

1st. Soil and physical conformation. One will be a wheat-raising, another a wool-growing country. Each will spontaneously turn its industry in that direction where it will produce the greatest values with the least outlay of labor and capital.

2d. Climate. From the Arctic regions to the tropics, from Siberia to Hindostan, is infinite variety, both of heat and moisture. Some countries are deluged with twenty-five feet of water in a season; others parch the year round with ten inches. Some are locked with frost eight months in twelve; others are open the year round.

3d. Social condition. Take, for examples, England and Brazil,— one distinguished for the high moral and mental endowments of its citizens; the other having a heterogeneous population, in a poor and semi-barbarous condition. The latter would, plainly, seek to enrich themselves from the spontaneous yield of the soil, from the wild wealth of the pampas and the forests, from the precious ores and

stones along their streams and in natural caves, rather than till the ground to the fertility of a garden, sink shafts into the solid rock, cast up highways upon the rivers, and work iron into the anchor and lancet.

4th. Difference of race.

This is additional to differences of social condition, and looks to those peculiarities of industrial character in the races of man, which are no less distinguishable than their peculiarities of stature, complexion, and feature. These do not affect the degree of production only, as greater or less, but multiply the fashions, and complete the varieties of wealth.

All the causes here enumerated conspire to give a great extent and activity to trade. It is in the commerce of the world that we have illustrated—

THE TERRITORIAL DIVISION OF LABOR.

The Chinese raise tea and silk. This is their specialty, the form of industry to them most profitable. The Cubans produce sugar; and the Sicilians, oranges, for the same reason. England excels all nations in useful manufactures; France, in those of taste and beauty; while the United States has its great industrial power in cotton and the cereals.

Under the operation of natural laws, each country employs and disposes of its labor, without any arbitrary enactments, in just the way most congenial and profitable; in other words, in that way which develops its greatest industrial power, and secures the largest possible production.

Suppose, on the contrary, that we of the United States should determine to raise our own oranges. We could do so, and create a supply equal to the demand. The cost of one orange would probably be equal to the cost of raising a bushel of wheat, which would procure for us abroad one hundred oranges. The loss would be equal to ninety-nine out of every hundred oranges. We should force a certain part of the labor engaged in other pursuits into the business of raising oranges. The supply would be fully equal to the demand; for, at the rate of a bushel of wheat for each orange, few oranges would be wanted. The people would lose the enjoyment of ninety-nine out of every hundred oranges they would otherwise consume, and could just as well have, if allowed to pay for them in wheat.

From these general considerations of trade, we deduce the following principles:

1st. The individuals must produce a surplus of their own commodities to have an opportunity to trade, and must trade to make it an object to produce a surplus. Wants create wealth, and wealth creates wants.

2d. That every nation is interested in the production of every other nation. Anything which impedes the production of any individual or community injures the trade of the world. The great Rebellion in the United States was felt, it may almost be said, by every human being on the globe. Not a consumer of cotton, high or low, civilized or savage, but suffered in consequence.

3d. That this mutual interest exists between any

two nations, whether they have direct commercial intercourse or not. For example: there may be a German principality that purchases nothing of the United States, yet it may purchase largely of the cotton yarn of England. That causes a demand for American cotton; that benefits the Southern States; that, in turn, helps the trade of the North; and that, again, the producers of the West, on whom the North depends for agricultural supplies.

4th. Since, by the laws of trade, those countries which lie most remote from each other, and are most unlike in soil, climate, civilization, and ethnical characteristics, are most nearly united by commerce, it is shown, that, by this territorial division of labor, the most extended production and the most beneficent distribution of all the commodities of the earth are secured; and that, if any nation creates an article of peculiar desirableness, it is placed within the reach of all. Every invention or improvement becomes, in this way, the common property of mankind.

5th. That commerce harmonizes all differences in the industry of the world.

"All Nature's difference makes all Nature's peace."

"A commercial nation," says Sir James Mackintosh, "has the same interest in the wealth of her neighbors that a tradesman has in the wealth of his customers. . . . Not an acre of land has been brought into cultivation in the wilds of Siberia, or on the shores of the Mississippi, which has not widened the market for English industry." And we may add for American industry as well.

6th. That commerce diminishes the number of wars, and shortens their duration.

The whole interest of commerce is the inalienable ally of peace. It has not been found sufficient, thus far, to prevent all wars. But it enters into negotiations, tempers grievances, and delays violence.

CHAPTER II.

OBSTRUCTIONS TO TRADE.

These are of three kinds:

First, physical, which are natural; *secondly*, legal, which are conventional; *thirdly*, social, which are incidental.

These we propose to consider *seriatim*, so far as practicable.

1st. Physical obstacles are such as Nature interposes. They may all be expressed by the term *location;* because this includes soil, climate, and all other natural conditions. Circumstances, as connected with the location of different communities, may render trade between them very difficult, however much they may desire commercial intercourse.

Nations, like individuals, exchange products for one of two reasons:

1st. That one produces what the other cannot; or,

2d. That one produces more cheaply than the other.

In either case, if they desire each other's commodities, it is for their mutual interest to make an exchange. It would, therefore, seem to follow that *all obstructions to the exchange of commodities between any two countries desiring each other's products must injuriously affect the interests of both.*

It is our present purpose to inquire as to the truth of this proposition, which, after the discussions of half a century, is still a matter of grave dispute; and the legislation of nations has been, and to a large extent still is, in the direction of interposing, rather than removing, obstacles to commercial intercourse.

To aid our inquiry, we shall make use of an illustration that we think will show, in a clear manner, and in a few words, the effects of physical obstructions.

Two communities, dwelling contiguous to each other, are separated by a lofty chain of mountains, which renders transportation between them so difficult as nearly to preclude all intercourse. On one side the mountain, the soil is so admirably adapted to cereals, that wheat (and other grains in proportion) can be produced at the rate of one bushel for a day's labor; while fuel is so difficult to be obtained, that six days' labor are required to produce one ton of coal.

On the opposite side of the mountain range, so little is the soil adapted to the culture of grain, that three days' labor are required to produce a single bushel of wheat; while the facilities for mining coal are so great, that one day's labor will produce a ton. Under such circumstances, it would evidently be quite advantageous to both countries to exchange products, if there were no obstacles to prevent their

doing so. Owing, however, to the resistance which the supposed mountain interposes, the transportation of a bushel of wheat is equivalent to two days' labor; so that the wheat would cost three days' labor per bushel when brought to the coal country, and for that amount of labor, the inhabitants could produce it themselves. So of coal. To transport a ton which cost but one day's labor at the mines would require the labor of five days; and therefore the people in the grain country, who can produce it by six days' labor, would gain nothing by getting it from abroad. For these reasons there would be no trade or exchange of products so far as those articles were concerned, except in case of some accident, as the failure of a crop, or an unexpected obstruction to the process of mining, by which the cost of the supposed commodities should be enhanced. Virtually, there would be no profitable trade between the two communities, although in one coal was six times as dear, and in the other wheat was three times as dear, as in the neighboring country.

If, however, we now suppose a railway to be made which reduces the *transportation* of a bushel of wheat to one day's labor, and the freight of a ton of coal to three days, we shall have conditions under which an advantageous trade will be sure to spring up, since the wheat-grower of the grain country can now get a ton of coal for the labor of four days, thus saving two days on each ton, equal to $33\frac{1}{3}$ per cent.; and the coal miner can get a bushel of wheat for two days' labor instead of three: thus saving, as far as his consumption of wheat is concerned, one-third or $33\frac{1}{3}$ per cent. of his labor.

If we further suppose that the consumption of coal in the wheat-growing country is five hundred thousand tons per annum, two days' labor being saved on each ton, the total saving will be one million days' labor per annum. If the consumption of wheat in the mining country be two million bushels on each of which one day's labor is saved, the total saving in the two countries will be three milion days' labor per annum.

What we find true here, *in principle*, must be true in all similar cases. Both parties gain largely; and the fact that the miners gain two millions while the wheat-growers gain only one, is no good reason why the latter should decline a trade that saves them a million a year. The result, in this respect, is analogous to the operation of the late Reciprocity trade between the United States and Canada, which, while highly advantageous to the former, was still more so to the latter.

We must inquire as to the general effects of these increased facilities for trade.

PRODUCTION WILL BE INCREASED.

First. As each of the supposed countries will now have an equal quantity of coal and wheat for less labor than before the obstacles were removed, the large amount of labor so released will of course be employed in the production of new commodities, and industry will flow into new channels. This will be done, not from compulsion, but from choice, and therefore will take the most profitable directions. The labor of each community, in the case supposed,

will act under new and greatly improved conditions, because,—

(*a*) In the mining country, the expense of supporting the laborer in consequence of the diminished price of wheat, will so reduce the cost of producing coal, that, other things equal, the miner will obtain a larger profit, and the laborer higher wages. More commodities being produced, there will be a larger amount to be divided between the parties producing it, of which the laborer will receive a larger share than before.

(*b*) In the agricultural community, on the other hand, the large reduction in the price of fuel will not only liberate a large amount of labor and reduce the expenses of living, but afford facilities for the use of steam power in manufactures and the mechanic arts, which will now be introduced as fast and as far as profitable. Thus the industry of both countries becomes more and more diversified. Wants in certain directions being supplied with less labor, more of the general industry may be employed in furnishing other objects of desire.

Do we not here discover the *principle* upon which the occupations of a people become *diversified*, and the way in which this is brought about in an economical manner under the unobstructed operation of the laws of trade, without the smallest sacrifice on the part of any class or interest? It is the spontaneous expansion of a nation's untrammelled industry.

HOW TRADE ENRICHES NATIONS.

Again, we here also ascertain the *principle* upon which trade enriches nations. Each party obtains

more by exchanging than by producing, because each produces that for which it has the most complete adaptation and the greatest facilities. Each nation, in fact, works for the other at a more profitable rate than it could work directly for itself. With uninterrupted trade this must be true of all countries, at all times, and under all circumstances.

Furthermore, can it make any difference to the wealth of nations whether the obstacles preventing their exchange of products are those existing in nature or interposed by governments? If, in the case of the two countries in question, after an interchange of products has been established by the construction of a railroad, the government of one or both should impose such heavy tolls upon transportation as to raise its cost as high as before the railroad was built, would not the effect upon trade and industry be the same as if the railroad itself were destroyed?

CHAPTER III.

LEGAL OBSTRUCTIONS, OR GOVERNMENTAL INTERFERENCE WITH THE GENERAL INDUSTRY BY TARIFF DUTIES.

These may be imposed for one or more of four reasons:

1. To raise a revenue.

2. To encourage the growth or manufacture of certain commodities at home.

3. To support or maintain existing forms of production.

4. To secure commercial independence by isolation, or independence of commerce.

1st. *To raise a revenue.* So far as this is only a convenient way in which the State can collect a certain sum of money it must have, it is but a mode of *taxation*, with which we have no present concern. So far as it affects the industry of the country by changing its direction to the production of articles that cannot be raised or made at a profit except by being raised above their natural price, it becomes an obstruction to trade, or what is called PROTECTION.

We have not thus far used the term *protection*, because in this connection it has a technical meaning, designating a system of restrictive measures on the part of the government intended to force the industry of a people from its natural channels; and we now use the term under protest.

Protection has been defined to be, "the establishment of such duties on foreign goods as will protect or cherish domestic industry."

We accept this as a correct definition of what the protective system *claims* to be; namely, an aid to the general industry of a nation; not to a part, but to the whole; not of one class, but of all classes. And this is the particular point of our present inquiry. This is the field in which protection joins battle of choice with freedom of industry. In all the other particular reasons its argument is, as we shall see, linked with some real or fancied necessity; but here protection takes ground freely and fairly, and proposes to do this by tariffs. Of these we will briefly speak.

TARIFFS.

A tariff is "properly a list or table of goods with the duties or customs to be paid upon the same."—*Webster.* From their general characteristics, tariffs may be divided into two kinds: namely, those imposed solely for revenue, and those laid intentionally in such a manner as to restrict the importation of certain articles with a view to cause their manufacture or production at home. The first is properly called a revenue or free-trade tariff, since it is not intended to, nor does it in fact, diminish trade.

It may be objected to this last statement that any duties, since they must increase the cost of commodities to the consumers, must necessarily diminish consumption. Is this true?

Suppose the amount of one hundred millions must be raised to meet the wants of government, and that this is done by direct taxation. Then those who *pay* the taxes will have one hundred millions less of means wherewith to purchase commodities, and their trade must be reduced to that extent. Suppose the same amount of one hundred millions be raised by tariff, then the cost of the commodities taxed will be raised one hundred millions, and consumers must purchase one hundred millions less than they otherwise might. In either case, the ability of the *tax-payers* to purchase will be reduced one hundred millions, and the trade of the country would be as little affected in one case as the other.

So far as mere trade, therefore, is concerned, it matters but little whether the supposed one hundred millions be raised by a revenue tariff or direct

taxation. The result of this *mode* of taxation, it may be observed, is not to interrupt the industry of the country, like restrictions upon trade, but only to lessen the satisfactions of the tax-payers.

The protective system, on the other hand, is designed to diminish foreign imports, and to direct the industry of the country into new channels, into the production of articles which will not pay a profit unless raised in price; and since they can only be raised in price, by the additional cost, or amount of labor required to produce them, *the general production must be lessened* to the extent of the extra labor required to furnish the protected articles.

Since the trade of a people depends upon production, it is influenced by taxation only so far as it diminishes their ability to produce. A strictly revenue tariff, therefore, like any other form of taxation (unless so excessive as to encroach upon production), has no disturbing influence upon trade, and in no way conflicts with the largest development of a nation's industry and the widest extension of its commerce. It preserves perfect freedom of exchange with every part of the earth.

Economically, it will ever remain true, that the government is best which governs least. The wants of a people are the sole proper, the sole possible, motives for production. Nothing can be substituted for them. Anything that seems to take their place is merely a debasement of them. The interests of producers, whether laborers or capitalists, secure, better than any other possible means, the gratification of such wants. Their intelligence is always superior on such points to that of any foreign body. These

we believe to be absolute affirmations of universal experience, not dependent on reasoning, not condescending to argument.

General proposition: There is no sense so subtile as that with which a man detects his own wants. There is no spur so sharp as that which urges him to satisfy them.

If, then, protection is founded on false economical principles, we should expect to find it working mischief in its application to national industry, perverting the desires, crippling the efforts, and plundering the satisfactions of society.

Since the subject is of great practical importance and of great popular interest, we will take an illustration at length from the history of American industry, exhibiting the principles thus far attained.

We choose the manufacture of iron, for six reasons:

1st. Because it may be produced in great amount in our own country, and is found in almost all others. There is, therefore, nothing of the nature of a monopoly about it.

2d. Because it enjoys the largest natural protection arising from its weight and bulk.

3d. Because it is one of the most simple of all manufactures.

4th. Because it has been tried on a large scale, affording material for great inductions, and freeing the results from any imputation of accident.

5th. Because the public attention has been turned to it for a long time, and it is better understood than any other we could name.

6th. Because a stronger argument can be made

in favor of governmental intervention in its behalf than any other.

What is the fact in regard to the manufacture so described? At present, iron cannot be so cheaply and extensively produced in the United States as to exclude the foreign article. Why is this? We answer negatively:

1st. Not that we do not know how to make it. Being, as has been said, the most simple of all manufactures, we have had, from the earliest settlement of the colonies, the necessary knowledge, and have produced it from our colonial days.

2d. Not that we have not sufficient capital. No branch of business is more accessible than iron-making, or requires less capital proportionally.

Besides, *a successful business, once started, creates its own capital.* Labor no more seeks assistance from capital, than capital employment by labor. Every year of profitable enterprise affords a surplus, which can be applied to the increase of business more efficiently than twice the amount of raw capital, coming in the lump. The daily or monthly increments are applied with an aptness and a promptness that make them far more useful than wholesale, occasional accessions of capital from abroad.

3d. Not that we have not the best natural facilities for the manufacture.

Five great conditions of success are found most remarkably in the United States,—(*a*) Our ore is not only of excellent quality and most abundant, but (*b*) is found very generally on the surface and (*c*) in proximity to the best river navigation, and

almost always in close juxtaposition to (*d*) coal for smelting, and (*e*) limestone for flux. Perhaps in no other country of the world are these requisites so fully secured. The absence of a single one of them might be sufficient to destroy the prospect of production.

4th. Not that the manufacture here lacks good natural advantages. America has been put at a great distance from Europe. The effects of this we have already seen. The foreign product is, in this case, charged with freight and insurance for a voyage of three thousand miles.

Why, then, with all these facilities, do we not produce all our iron without governmental coercion? There is but one reason.

We can do better. We can obtain a part of our iron with less labor than by making it.

How can this be? Because, though we have facilities for making iron, greater perhaps than any other people, we have *still greater* facilities for raising agricultural products.

We can raise forty bushels of wheat with, say, twenty days' labor that will purchase a ton of iron, to produce which would cost twenty-five days' labor: net saving, five days, or twenty per cent. on all our iron.

What is the explanation of this state of things?

Land is an instrument, and the greatest of all, in producing agricultural values. Good arable land, on which wheat is raised in England, is worth, say, two hundred dollars an acre.

In this country, the same is worth, perhaps, twenty

dollars.* Then, with our price of land, we have the advantage, so far, over the European, in the production of crops, of nine-tenths, or ninety per cent. Our capital in land is ten times as productive as that of England. On the other hand, we have not an equal advantage over the European in making iron; for, although it costs him more labor (and labor is, as we have said, the chief item in making iron), that labor costs him much less per day than it costs us; say, at least, fifty per cent. less. So that, if it is estimated to cost him twice as much labor to make iron, still labor costs him no more in money than ours costs us. In respect of labor, then, we are on a level.

So far as money, as capital, is concerned, the European again has the advantage of us by fifty per cent., since money is as well worth eight per cent. here as four per cent. there.

Now, these facilities which the European has, from the cheapness of labor and capital, counterbalance to a great extent, if not fully, the advantages which we have from the ease with which we can get the materials of which iron is made.

If so, in getting our iron by raising wheat, we have the net advantage over the European of ninety per cent. in the land, which is the great item of expense in such products.

Such is the situation. We will now apply protection. Government, in 1816, laid a duty of thirty

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* Often not a fourth part of that sum. The government holds the best wheat land at one dollar and twenty-five cents, and gives it away to actual settlers.

dollars per ton on bar iron; equal to about fifty per cent. on the cost of the foreign article. Let us inquire into the effect of this policy.

1st. More iron was produced. Labor and capital were at once withdrawn from other occupations, and invested in furnaces and iron-making.

2d. A great loss was caused to the general production of the country. If labor and capital were withdrawn from pursuits of ordinary profitableness, and invested in business that required fifty per cent. protection to make it profitable, does it not follow that, on the whole amount made under the forced system of production, there was a loss to the country of thirty-three and one-third per cent.; thirty-three and one-third per cent. of ninety, the enhanced price, being fifty per cent. on sixty, the original price?*

3d. Many wasteful and disastrous experiments were made. When any branch of industry grows up naturally, it commences upon a small scale, and is cautiously extended, as found profitable. Under a forced system, it is quite otherwise. A duty of thirty dollars a ton is laid upon iron.

Pennsylvania is full of iron ore and coal. What prevents her from making a vast sum by it? Has she not a protection of fifty per cent.? So everybody reasons; so everybody acts. Great establish-

* It should be understood that there can be no greater DISCOUNT than one hundred per cent., which takes the *whole* of anything; yet there are men who profess to be learned and even well versed in financial matters, who speak very flippantly of two hundred or five hundred per cent. discount. They confound discount with premium. The first is limited to one hundred, the latter is illimitable.

ments are started at once. There is no occasion longer to consult adaptations of character, experience in business, or local economy. Merchants, professional men, farmers, mechanics, all are seized with the mania of iron-making. Large iron works are hastily and ignorantly got up. They are managed by *incompetent* men, worked by *inexperienced* hands, they turn out *imperfect* iron, with *inevitable* loss and final *insolvency*.

And the iron interest clamors loudly and successfully for more protection. These are not accidental or peculiar results, but natural and certain, where the great laws of trade and the even course of production are disturbed.

Such were the actual facts in regard to the manufacture of iron in this country, and they illustrate in the most clear and forcible manner the legitimate results that must ever attend all efforts to force the industry of the nation into unnatural channels, or stimulate a branch of production, which, as in the case of iron, as just stated, had already been successfully started, was gradually extending and prospering as much as other industries.

But it may be urged that, if a part of the labor of the country had not been taken from agriculture, its products would have declined in value, and this would have counterbalanced what was lost by the manufacture of iron.

The markets of the world being open to us, all our surplus products would remain in demand. Provisions, especially, are a sort of "legal tender" the world over; and there seems to be no immediate occasion to anticipate their disuse.

If there were no other markets open but those at home, there would be a certain tendency, not at all frightful in its vehemence, to a decline of prices, in a country like ours; *because* an agricultural people, under favorable circumstances, always produces more than it consumes, and would, sooner or later, create such a surplus as to lower the price, and as soon as wheat had fallen so low that it required as many days' work to get a ton of iron by raising wheat as by working the ore, the manufacture would be successfully introduced. That is precisely the point at which this branch of industry would legitimately begin, and every other desirable manufacture be successfully started.

A striking illustration of the sad effects certain to follow protection, or any extraordinary and unnatural stimulus given to a particular branch of industry, has been afforded by the paper interest in this country.

The late war created an immensely increased demand for paper, and it advanced to an exorbitant price. This caused a rapid extension of the business, and mills were erected in all parts of the country. Peace came, the extra demand fell off, while the number and capacity of the mills having been largely increased, they were prepared to supply a greater amount than was required, even during the war. Over-production was the consequence; a ruinous fall of prices, general stagnation; and when a great freshet in Massachusetts, in 1869, swept off a large number of these establishments, the event was hailed as a fortunate circumstance, as undoubtedly it was, *to the trade.* The destruction of property a blessing!

CHAPTER IV.

FALLACIES OF THE PROTECTIVE THEORY.

We now pass from the consideration of the principles of protection, to illustrate their application. We believe we have shown the unsoundness of that political philosophy which proposes to substitute artificial for natural laws, in production. But there remains some popular arguments, often sincerely urged, which we will now notice.

PROTECTION OF INFANT MANUFACTURES.

Fallacy 1st. It is claimed as good policy to protect "an infant manufacture" until it is well established, because it will then take care of itself and ultimately confer great wealth on the country.

This may be called *the primary fallacy*, because the first announced and most successfully advocated. It was not contended, during the early period of tariff legislation (say from 1816 to 1828), that protective duties were not a heavy tax upon consumers, but that they were temporary, and would in a short time secure the object sought, and be then discontinued; and it was only a belief in the truth of this assumption which secured the enactment of the first tariffs.

In reply to the argument for protecting an infant manufacture, it may be remarked:

(*a*) There is no assurance, under a system which

removes the sole test of usefulness and self-support from the production of a people, that enterprises will not spring up which never will come to maturity, which have no vital force of themselves, which exist solely by reason of the protection, and will never become remunerative. If good enterprises, why not bad, since the test of bad or good has been withdrawn? Thus the whole industry of a country may become perverted and falsified by removing the principle of natural competition. There will be no reason for healthful industries to spring up, which will not also give life to such as are weak, tardy, ephemeral; to such as are parasitic and exhausting.

(*b*) Other things aside, the desirableness of raising the "infant" will depend very much on the length of time and total cost required to bring it to full age and size.

France protected one of these industrial infants; *i.e.* the beet-sugar culture. Dr. Wayland said of it, in 1837, "The present protection costs one million and four hundred thousand pounds per annum. Suppose this to continue for twenty years, it will amount to no less than twenty-eight million pounds sterling; the interest of which, at five per cent., will bring, at two and a half pence per pound, one hundred and twenty-six million pounds of sugar, or nearly the whole annual amount of sugar now consumed in France." In 1871, we can say that this child, born in the early part of the great Napoleon's career, has not yet become strong enough to walk alone, or hardy enough to take the air. Supposing an equable annual consumption of any article, it requires but common school arithmetic to show that a

protection to the extent of fifty per cent., continuing for eighteen years, would amount to a sum which, at six per cent. interest, would furnish the nation in that article to the end of time, without ever paying anything more for it.

What has been the success of this system of legislative protection in the United States? Beginning with 1820, we find, in the five following decades, that the average duties on dutiable goods were (see Wells's Report, 1869, page 144):

1820 to 1830	38 per cent.
1830 to 1840	33 " "
1840 to 1850	28 " "
1850 to 1860	23 " "
1860 to 1870	38½ " "
Average duties for fifty years	32 " "
" " " last five years . .	45½ " "
" " " 1870.	47 " "

Such has been the protection given to our industrial *protégés* for the last half century, and yet we do not find that they have arrived at that degree of strength and maturity at which they are content to be left to competition with foreign producers. They still make strenuous exertions to maintain the present high rates of duties, and in many cases to increase them.

(*c*) Finally, no sound and healthful manufacture needs protection at all. The phrase "infancy" is entirely sophistical, as applied to any branch of legitimate industry. Each one comes full-grown and full-armed into life. We do not mean that it has no growth, as far as extension is concerned. It certainly does go on from town to town, from State to State,

out of small beginnings. But there is no infancy, so far as completeness or robustness of life is concerned.

A remarkable confirmation of the truth of these remarks is found in the history of the boot and shoe manufactures of the United States. They never asked for protection; never received any notice in all the conflicts for increased tariffs. The trade grew up naturally, steadily, and profitably from the first; increasing gradually, with the growth of the country, until, at the present time, it is not only the largest, but one of the most profitable branches of manufacturing industry. In Massachusetts alone, this manufacture extends to near one hundred million dollars annually, and is by far the most advantageous branch of industry in the State.

It is no exaggeration to say that hundreds of millions of dollars have been sunk in the cotton and woollen business in this country, in consequence of the unnatural stimulus given by tariff legislation, which has induced at different times a too rapid extension of those branches of manufacture. The boot and shoe trade has lost nothing in that way.

DEVELOPMENT OF MANUFACTURES.

Fallacy 2d. That protection especially develops manufactures; and manufacturing countries are found to be in fact richer than those more exclusively agricultural.

Both propositions are true in an isolated form.

Other things equal, in a normal state of things

manufacturing communities are older than agricultural, and, of course, have much greater accumulated wealth. England is older and richer than the United States; Massachusetts than Ohio. Manufactures arise *because* a people have a dense population, abundant capital, and great industrial activity. Under such circumstances, great wealth will be created, because these are the fit conditions of creating wealth.

It is, without question, true, that in an equal manufacturing population will be found a greater accumulation of wealth. One important reason of this is, that a larger share of the population are engaged in production, and a larger amount of capital is employed. Women and children, who could earn but little in agricultural labors, can earn much in manufacturing. This is one of the most striking results of a division of labor, as we have already shown. As we carry on agriculture, women and children do little, though in Continental Europe they do much. Agriculture, too, can be performed only in certain portions of the year. Manufacturing need never stop, summer or winter, cold or hot, fair or foul. This makes a wonderful difference.

All these, however, are economical advantages, which manufacturing communities have, when properly constituted and employed. These are reasons which may induce such industry; never reasons why it should be compelled.

There is a principle always operating to bring manufactures out, on every part of the earth's surface. It is the impossibility of carrying on certain branches anywhere but at the place where the article

is wanted. It would be within bounds to say *that four-fifths of all the present consumption of manufactures would be supplied by our national industry, irrespective of protection.*

RAISING THE RATE OF WAGES.

Fallacy 3d. That high tariff duties, by excluding foreign commodities and causing their production at home, raise the rate of wages, and thus benefit the laborer.

Without entering upon the question whether tariff duties, however high, can have such an effect, it is sufficient to say that this assumption ignores the important consideration that the laborer is a consumer as well as a producer; and that he consumes as much in value as he creates. Yet such is the fact. If he does not actually consume from day to day all he earns, if he lays up a part, and finally invests it in a house or other property, the result is the same to him; for whatever he purchases will be equally advanced in cost by the supposed rise in wages, since every kind of property being produced by labor must rise equally with the rate of wages, and therefore the laborer can gain nothing by a rise of prices occasioned by tariff taxation, even if it did raise the general rate of wages. So far from being benefited by duties imposed for the purpose of forcing industry from one branch of production to another, the actual wages of the laborer, as measured by the commodities he can get in exchange for them, must be diminished.

To many minds it seems quite clear that, when the laborer in America and the laborer in Europe

are engaged in producing the same commodity, and the wages of the latter are but half those of the former, if the European is allowed to send his commodity free of duties to this country, the home laborer must be driven from his employment, or his wages be reduced to the same rate as those of the foreigner.

The fallacy of this may be seen by the following illustration: "Suppose pig-iron at the furnace in Pennsylvania to be $24 per ton, and $24 in Wales; the wages of the Pennsylvanian might still be $3 per day and in Wales $1 per day, because it would require only eight days' labor to quarry the ore and coal on the surface in Pennsylvania, and twenty-four days to haul it up from the deep mines of Wales." This statement, which corresponds quite truly to the facts in the case, shows conclusively why it is that wages in this country may be double and treble what they are abroad, and yet we may compete successfully with the foreigner.

DEFENCE AGAINST PAUPER LABOR.

Fallacy 4th. That the introduction of foreign fabrics that come into direct competition with our own must reduce the American to the same miserable condition as the foreign laborer.

This is doubtless a most effective and popular appeal in favor of excluding European manufactures.

That labor is lower in all other countries than in the United States, is universally admitted; that in some communities laborers are so oppressed as to be reduced to nearly a state of pauperism, is also well known; and in view of these facts, it is asked,

with great emphasis, whether we shall admit these poorly paid laborers into competition with our own? whether we shall reduce our workingmen to a level with those of less favored countries? On this point, there is but one opinion. All agree that nothing should be done to degrade the condition or lower the compensation of the American laborer; and the only matter in dispute is, whether permitting the latter to purchase the commodities of the former, because they can be had at a less cost, will have the assumed effect. If this can be shown, the argument is at an end. If, on the other hand, the very reverse of this is true, then the position taken by protectionists falls to the ground.

The question of higher interest to the laborer of every country is, how he can procure the largest amount of the commodities he wants, with the smallest amount of his own efforts. It matters not to him whether the foreign laborer works for ten *pence* or ten *shillings* per day: it is the quantity of that laborer's products he can command *in exchange for his own labor* that alone concerns him. He is neither better nor worse off because the laborers of another country live in comparative poverty. Daniel Webster, in 1820, made the following impressive remark: "We cannot afford to do with our intelligent labor what paupers can do as well for us."

So far as the native laborer is concerned, the lower the rate of foreign wages the better; for, as a consequence, he gets a larger amount of the foreign product in exchange for his own. This may be a misfortune to the *foreign*, but is certainly no disadvantage to the *home* laborer.

In the great competition of universal industry, which countries have most to fear,—those in which wages are high, or those in which they are low? Neither, in truth, has anything to fear on account of the dearness or cheapness of the other's labor, and therefore it cannot be good policy for any nation to preclude the introduction of foreign commodities for such a reason.

HOME MARKET.

Fallacy 5th. That a home market should be created for agricultural products, by restricting the importation of manufactured articles and causing their production in this country, thus placing the manufacturer by the side of the cultivator of the soil.

This is a very pernicious, because a very plausible and delusive fallacy. It was this idea that led Mr. Calhoun and his friends to inaugurate the tariff in 1816. They wished to secure a *home market* for all their cotton. They tried the experiment, and found that the whole consumption of the United States was not, and could not be, equal to more than one-third of their cotton crop, and therefore that they lost far more than they gained by the restrictive policy. Efforts have been made to induce the belief that the people of the Western States would be especially benefited if such restrictions were laid upon trade as to insure the production at home of all manufactures wanted for consumption, and thus create a home market for all their products; but experience would show them that the home demand could never be made equal to the productions of their prairies. Our territory is so vast and so fertile that we must produce

the largest surplus of breadstuffs, provisions, cotton, and petroleum of any people on earth, and this surplus will increase with the increase of population. For this surplus we must have a foreign market, or our own growth as a people will be greatly retarded. Therefore a large export demand for all these products is of the first importance. Not only shall we produce a large surplus, but whatever that surplus is worth will determine the price of all the crop, whether of corn or cotton. Upon foreign markets we must depend, and should therefore interpose as little obstruction to trade as possible. This would not at all prevent, but rather accelerate, the normal and healthy growth of manufactures at the West, the great natural section for agricultural products.

EXHAUSTION OF THE SOIL.

Fallacy 6th. That the exportation of breadstuffs, cotton, and other agricultural products fatally exhausts the soil, and therefore a home market should be created, so that this result may be prevented.

It is true, other things equal, that the constant carrying away from the soil its fertilizing properties will gradually reduce its productive power. It is also true that in every new country the earliest settlers rely entirely upon the natural fertility of the earth. It is all the available capital they have. It is well that they can do this, because having everything to do, and but little to do with,—dwellings, roads, bridges, school-houses, churches, and other private and public wants to provide for,—if nature were not thus kind, their progress would be slow

and difficult. This has ever been the case in all new settlements.

But what succeeds to this primitive condition of things? When the original fertility is exhausted, when the people have acquired so much wealth as to be able to attend to the actual cultivation and improvement of the soil, they invariably commence the art of true agriculture, by various processes of fertilization. The result always has been, always will be, that old countries that have been long cropped are the richest in their fertility. Instance Great Britain, and every other country where persons and property have been made secure by law.

PROTECTION OF CAPITAL.

Fallacy 7th. That the home capitalist is especially benefited by protective duties which shut off competition with the cheaper capital of the foreigner.

This is a very common but mistaken opinion. If it be for the interest of the laborer, as we have endeavored to show, that the rate of wages should be lower abroad than at home, it must be equally fortunate for the capitalist that the rate of interest in other countries is lower than in his own; because in exchanging his products, or that which has been created by the use of his capital, for commodities created with cheaper capital, he will have the same advantage we have seen to inure to the laborer. If the rate abroad is but half what he receives, he obtains twice as many commodities for the use or employment of his capital as he otherwise could do. The laborer and capitalist stand on precisely the

same platform; and their interests are in this case, as in all others, in perfect unison.

FREEDOM OF EXCHANGE ESPECIALLY BENEFICIAL TO THE MERCANTILE AND TRADING CLASSES.

Fallacy 8th. That unrestricted trade benefits the mercantile and trading classes only, at the expense of all others.

This idea, by whomsoever entertained, is but a short-sighted and incorrect view of the matter, since the amount of foreign or domestic trade can only be as the amount of *production;* and therefore, if obstructions to trade do, as we insist, necessarily diminish *production*, then they injure not only the producing classes, but the trading and transportation classes as well.

Besides the direct producers, the laborers and capitalists of the nation, a third class of persons is found to whom the question of freedom of exchange is of great importance; viz., the *entrepreneurs*, the mercantile, trading, and transportation classes, who stand between the producer and consumer, and through whose hands by far the greatest part of the products of a nation must pass before they are finally disposed of in use.

If it be true that the fewer the obstacles in the way of exchanging commodities, the greater will be the production, and of course the larger the field of commercial operations, then we shall find that the interests of this middle class are quite in harmony with those of which we have previously spoken. The business of the merchant must be extended or contracted just in proportion to the extension or con-

traction of the general production of the country in which he resides.

If, then, as we have endeavored to show, the removal of all obstacles to the most unrestricted commercial intercourse is for the interest of the laborer, the agriculturist, and other classes connected with production and exchange,—as these must constitute an immense majority of the entire population, at least nine-tenths of the whole,—the conclusion is irresistible that the general industry of any people is best protected by entire freedom of intercourse with all mankind, whether paupers or princes.

PROTECTION IS A WAR OF INTERESTS,

which necessarily introduces internecine strife between the different industries of a country; and the further the policy is carried, the more severe the antagonism. Whenever government interferes to favor one industry by raising the price of its products, it does so, of necessity, by taxing all other interests. If prices are raised, somebody must pay the advance. When the price of coal, for example, is enhanced by a duty on the foreign article, every manufacturer in the nation who uses coal pays a tax to the miner. The interests of the miner and coal consumer are brought into collision, and one must suffer that the other may be benefited.

If government interferes to obstruct the trade in iron, every mechanic in the nation, to whom it is raw material (and it is so to a numerous class of artisans), is injured in his business. There are probably at least a hundred different industries for which iron, in some of its forms, is the raw material; and

in the aggregate these are many times larger than the production of the iron itself; yet all must bear the greater cost of the article which forms the basis of their operations. Their power to compete with the foreigner is reduced to the whole extent of the duties they are compelled indirectly to pay.

Besides all this injury to the general industry, every consumer of iron (and who is not such directly or indirectly?) is brought into a position of antagonism with the iron producer. The former is injured to a greater extent even than the latter is benefited. There is no escape from this conclusion. Protect the domestic wool-grower by a duty upon the foreign article, and at once the woollen manufacturer justly complains that his business has been interfered with, because he wants a free opportunity to get a supply of the foreign article as low as it can be had in England or any other country, otherwise he cannot compete with the foreign manufacturer. Thus a direct war of interests between the wool-grower and woollen manufacturer is commenced, destructive to both. If a duty is laid on wool, the manufacturer certainly suffers: if, to counteract this, a duty is laid on foreign fabrics, both parties are injured, and the entire community is laid under onerous burdens.

Perhaps the most striking instance of the collision of interests arising from attempts to favor a particular branch of industry is found in the case of the home duties laid to favor the manufacture of steel. "The whole number of persons engaged in the direct manufacture of steel in the United States is not, as the Special Commissioner of Revenue informs us, in excess of three thousand five hundred;

while the number of those who use steel *as a raw material* for the manufacture of axes, chisels, files, cutlery, spades, shovels, pistols, machinery, and other tools and implements, is not less than two hundred thousand; while an addition of those indirectly interested in having cheap steel would swell this number to one million five hundred thousand."

Now if it were true that the duties upon steel advanced the wages of the three thousand five hundred laborers employed in producing it, must not the business of the two hundred thousand persons using steel as a raw material be correspondingly depressed? Would not the latter, being many times more numerous, lose more than the former gained? That such was the view of the case taken by those who used steel as a raw material, we know from actual information, personally obtained from one of the largest manufacturers of cutlery in the United States. We heard him remark that the heavy duties upon steel operated greatly to his disadvantage; and if Congress would remove those duties, he did not need any protection whatever, nor ask any favors.

The result would seem to be that if the protective duties on steel benefit three thousand five hundred laborers engaged in producing it, they must injure two hundred thousand persons employed in working it, and one million five hundred thousand connected with their operations; while they impose an oppressive tax upon a population of thirty-eight millions.

In this last specimen of governmental intermed-

dling, we have a striking illustration of the certain effects of all measures designed to favor particular interests.

CHAPTER V.

PROTECTION (*concluded*). OTHER OBSTRUCTIONS CONSIDERED.

LEGAL protection, as we have already said, may be imposed from one or more of four general reasons.

We have discussed the two first, viz.:

To raise a revenue.

To encourage the growth of certain commodities at home.

We now come to the remaining reasons, which will demand but little attention, as their principles have already been developed.

1. *To support existing manufactures.*

Here we leave the expediency of founding special industries by a system of protection, and confine ourselves to the question, whether such industries having been begun and developed under high tariffs, capital having become so engaged, labor having become so employed, it is not necessary to continue the protection.

So far as this acknowledges a moral obligation on the government to save from loss those who have followed the guidance of its laws, it is a question for the statesman. But the economist can urge

that, if the burden of such bad investments must be borne by the public, it would be preferable to have it assumed in the shape of direct relief to the manufacturers, rather than by a system which is sure to multiply such unfortunate enterprises, and perpetuate their weakness. That great caution and forbearance are necessary, in removing even a false institution, is not a maxim which economy has to teach politics.

THE PRACTICAL DIFFICULTY.

And here we come face to face with the great practical difficulty of protection in our country; that which, if all its principles were triumphantly proved in general reasoning, should still throw it out of our legislation. If it were proved harmless, if it were proved beneficial, there is a strong reason against ever attempting to realize it here. That difficulty resides in the varying politics of our country. Injurious as protection is to the best interests of the country, any system of it, however severe, would be preferable to the "open-and-shut" policy, absolutely unavoidable in a government like ours. It is not within the bounds of reason to suppose that the alternate successes of parties will not continue to convulse our national legislation; and therefore it is with emphasis true, that a persistent system of protection is only possible in a government with great conservative force and great central powers.

2. *To secure commercial independence.* True commercial independence is attained by any nation, when its natural resources are so developed and

cultivated that it becomes a power in the world, can command the products of the industry of every climate, because it can furnish that which all others want. This is independence *in* commerce. Independence *of* commerce is the independence of the savage.

But it is claimed that such a separation from all offices of kindness is necessary to protect nations in war. So far as the state urges the claims of its own safety, the principles of economic science must be silent. But this interference with the laws of value, for the preservation of the national life, must be strictly limited to the absolute necessities of war.

But the argument for protection from the necessities of war has almost disappeared in the intenser light of our growing civilization. The independence of each nation *in* commerce, existing harmoniously with its dependence *on* commerce, forms the best hope of peace and tranquillity for the future. It may be safely assumed that the probabilities of war between any two peoples are inversely as their commercial relations.

THE FINAL ARGUMENT.

But, after all argument has been closed on the principles of protection, we still find one plea remaining. If freedom of intercourse, it is said, were only universal, it would be well; but, since it is not, each nation must protect itself, and do as it is done by.

If England should exclude our wheat, she would raise the price of the article at home; that would necessarily increase the expense of living with her

working classes; that would cause a rise of wages, that would enhance the cost of making iron, and all other commodities; and that would make it more easy for us to compete with her in producing every article we need, and hasten the time when we should supply ourselves.

Let us suppose that England refuses to take our wheat. Would that be a good reason why we should not take iron from her, if we get it so, cheaper than by making it? We have already shown that the protected suffers more than the excluded community.

What advantage is there in refusing to buy of a nation because it refuses to buy of us? It is retaliation and revenge, not self-defence or self-vindication. The most wise and useful economical act of this century was that by which, by the exertions of Mr. Cobden, England and France, so long contending only in exclusions and mutual injuries, threw open their ports to the free entry of hundreds of articles, to the common benefit of both, and to the advancement of good feeling and hearty alliance; a measure that, between the years 1859 and 1863, increased by seventy-three per cent. the trade of Great Britain with France, while proving no less beneficial to the labor of the latter country.

We infer, from all that has preceded, that "protection" is an unfortunate expression. To restrict industry, to put the bad on the level of the good, to remove from industry its only guaranty of a full reward, to contract trade and neutralize the gifts of Nature, is not protection, in any proper sense of the word. It is spoliation.

OBSTRUCTION TO TRADE BY A DEFECTIVE STANDARD OF VALUE.

Governments cannot only restrict trade by heavy and discriminating duties on foreign goods, but also by establishing or permitting a false standard of value through a redundant and consequently depreciated currency, which, of necessity, prevents the exportation of many articles that might otherwise be advantageously produced in the country.

The consideration of this question more properly belongs to another department of our general subject, and we present it now only that it may be recognized as one of the many ways in which governments unintentionally, but not the less effectually, diminish commerce and retard domestic manufactures.

The principle involved may be briefly stated as follows: A depreciated standard of value raises the cost of all domestic products and the rate of wages as measured by it, and of course increases the cost of home manufactures to such an extent that they cannot compete with forign products at home, or be advantageously sent to those countries that have a correct standard of value.

The practical operation of this principle is abundantly shown by the fact that in 1860, when our currency was at par with gold, we exported of our domestic manufactures $47,160,000, while in 1868 the amount was but $37,856,723. But the effect is still more strikingly seen in the case of our cotton fabrics, the exports of which amounted in 1860,

under a currency at par with gold, to $10,934,796; while in 1868, under a depreciated currency, they were but $3,479,324,—a falling off of nearly two-thirds, while, according to the rate at which they previously advanced, they should have trebled. No demonstration of the truthfulness of our position could be more complete than is afforded by the tables from which we quote. Indeed, it would seem that no proof in the case could be needed, since the principle is self-evident and needs only to be stated.

TRANSPORTATION OBSTACLES.

A new and serious obstacle to the general trade of the country has presented itself within the last few years, in the heavy railroad tolls imposed in consequence of extensive combinations by managers of different naturally competing lines, who are thus enabled to establish exorbitant rates for freight.

This has already become an evil of great magnitude, and is evidently increasing with the constant extension of railroads and the increase of these combinations, so that the industry of some sections of the country is already sensibly affected by it. The results of these monopolies are twofold:

1. They discourage production; for when it takes the value of one bushel of wheat to get another bushel to market, the inducement to raise wheat is diminished: so of all other products. The consequence is, that farmers cannot afford to cultivate their least productive lands at all, except so far as they consume their own products.

2. To increase the cost of products at the place of exportation is to diminish trade, especially foreign commerce. All that is excessive in tolls is just so much protection to the agriculture of other countries. If it cost ten or fifteen cents per bushel more to transport wheat from Iowa to New York than it ought, the wheat-grower on the shores of the Black Sea, who competes with the American producer in the markets of Europe, has the full advantage of it, and will increase his production and profits accordingly.

Duties upon exports which come finally into competition with foreign productions are justly considered injurious to the industry and trade of a country; but excessive tolls have the same effect, besides being more objectionable from the consideration that, while duties would go into the public treasury, and constitute a part of the national revenue, and thus relieve the whole people of a part of the public burdens, tolls only enrich the few who own or manage railroads.

SOCIAL OBSTACLES.

Another mode in which trade may be interrupted is by what we have termed social obstacles. We have also called these incidental, there being no original intention to affect the direction of labor. These often have the same influence upon production and exchange that physical or legal obstructions occasion. A most impressive illustration is found in the results of the war of the Rebellion in the United States. The production and sale of cotton in this country were for a time greatly hindered, almost

annihilated. This caused an immense advance in the price of that article in India and Egypt; and this, of consequence, greatly stimulated production and speculation in those countries, especially in India, where the culture had been comparatively unprofitable. Under the encouragement thus afforded, it became far more advantageous than any other branch of industry. India increased in wealth with surprising rapidity, and a great industrial revolution was effected. But it was at a heavy expense to all other peoples and countries. What India gained Europe and America lost, the former as consumer, the latter as producer. The wealth of the world was not increased by all this, but largely diminished, and healthy commerce widely deranged.

Even India itself has not been permanently benefited by the extraordinary demand for cotton. The return of peace in the United States, bringing down the price of her great staple, caused extensive bankruptcy and general commercial distress, greater than ever known before. Thousands of the population starved to death in consequence of the culture of rice having been abandoned for that of cotton.

CHAPTER VI.

BALANCE OF TRADE.

WHAT is meant by the balance of trade?

An actual balance of trade is the difference between the amount of values exported and the amount of values imported. This seems a very simple proposition; yet the question is one of great complexity, from the fact that it is difficult to determine with certainty whether the exports of a nation do or do not actually equal the imports. Superficial observers resort to the financial returns made to the government; and finding, for example, that the imports of 1854 amounted to $304,562,381, while the exports were but $278,241,064, leaving a difference of $26,321,317, they hastily conclude that the balance of trade was against this country to that amount. Such a conclusion would not have a sufficient foundation.

To understand this subject, we must notice that the exports are stated at their value at our own custom-houses, while the amount imported is stated at the value in foreign countries. If we suppose the amount exported in 1854 was on American account, and paid a profit of only nine per cent. on the custom-house valuation, we shall find that it will amount to $25,041,695, a sum very near the assumed balance, and, if so, the commodities exported actually paid for the amount imported, and the supposed unfavorable balance is annihilated. As the goods

exported should sell for enough abroad, and as they do generally sell for enough to pay all charges of freight, insurance, etc., with reasonable commissions, say in all fifteen per cent., we may justly infer that there was, in fact, a balance in favor of this country in 1854. But the question whether there was or was not an actual balance that year can only be determined by ascertaining whether our exports generally sold for an advance sufficient to pay for the imports. This is known only to those engaged in or familiar with the results of the export trade of 1854. The balance might have been greater or less than what it appears from custom-house statistics.

On the other hand, in 1855, our exports exceeded our imports by $13,688,326. Does that show a balance in favor of the United States? Apparently; yet there might have been a loss upon our exports which would more than balance the $13,688,326.

Although the financial tables of the Secretary of the Treasury do by no means decide the balance of trade, and the custom-house returns are never conclusive evidence, yet there are cases in which there is no reasonable doubt on which side the balance is. In 1836, for example, we exported one hundred and twenty-eight millions, and imported one hundred and eighty-nine millions; an excess of sixty-one millions, making a difference of sixty per cent. over exports. In this case, there could be no doubt there was a larger actual balance against the country, because the profits could not have been equal to the excess. So too, to go further back, in 1816 the exports were fifty-two millions; imports, one hundred and twelve millions; excess, sixty millions, or more

than one hundred per cent. The unfavorable balance in both cases caused great distress by the necessary exportation of specie.

BALANCE OF TRADE—HOW ADJUSTED.

If the commerce of a country is in a really prosperous condition, the value of its imports will, in the long-run, exceed its actual exports, because its export trade should pay a profit. No country is enriched by trade, unless its aggregate imports do exceed in value its exports. It is no matter whether the excess of imports over exports is brought into the country in specie or any other desirable commodity, provided its own currency be a true standard of value.

The trade of the United States for 1863 showed the following results: Exports (Financial Report, 1864), $350,152,125; imports, $252,187,587; balance, $97,864,538. The returns also showed an export of gold to the amount of $82,364,482, an import of gold of $9,584,105, giving a balance of $72,780,377. A considerable part of this gold was, doubtless, sent abroad for safe keeping by timid capitalists, and not over-loyal citizens. The large balance of seventy-two millions in favor of the United States was no indication of a profitable trade that year; quite otherwise. The balance of gold exported in 1864 was ninety-one millions. Another fact, that throws additional conjecture upon the apparent balance of trade, is, that false invoices are used to an enormous extent at our American custom-houses. Whenever duties are charged upon the cost of the commodities,

it is an object to have them invoiced as low as possible. Fraudulent invoices are often made out *abroad* and sworn to by the importers *here*, and thus the actual value or amount paid for the foreign merchandise is not accurately exhibited. The Revenue Commissioners (see their Report to the Secretary of the Treasury, January 29, 1866, page 45) estimate that the frauds at the New York Custom-House alone are from "twelve to twenty-five millions annually." The aggregate of these frauds throughout the country has been estimated as high as forty millions per annum; but, if they amount to only thirty millions, the "balance of trade" is seriously influenced by them.

Many considerations of this general character might be brought forward; but sufficient has already been said, we trust, to show what the real nature of a balance of trade is, and how difficult a matter it must always be to determine with accuracy upon which side it actually is, and what its amount.

PART SECOND.—INSTRUMENTS OF EXCHANGE.

CHAPTER I.

BARTER AND THE DIFFERENT FORMS OF CURRENCY.

We have discussed the principles upon which exchanges are made. We now come to consider the instruments by which they are effected.

These are of three kinds:

1st. Barter.

2d. A common medium, or currency.

3d. Different forms of credit.

No person produces everything he wishes to consume. Even in the savage state, men will obtain different products, as they have skill and opportunity. These they will exchange among themselves in kind.

As the civilized state appears, the necessity for interchange of commodities increases, and barter, or exchange in kind, becomes a very inconvenient and clumsy mode of effecting the desired object. For example, the farmer may wish to exchange wheat for a hat; but the hatter is already supplied: what, then, will the hatter accept? A table. The farmer must then go to the cabinet-maker, and offer his wheat for a table. But the cabinet-maker is supplied with wheat. He would, however, accept a pair of boots. The farmer applies to the boot-maker, who happens to wish for wheat and accepts

the offer. With the boots the farmer gets the table, and with the table gets the hat which he desired.

In such a state of things, this was the only process by which exchanges could be effected; circuitous, and expensive in time and labor, as it was.

We might have supposed a far more difficult case; but this is sufficient to illustrate the inconvenience of *barter*, or the direct exchange of commodities. But there is still another difficulty, of scarcely less magnitude. When articles to be exchanged became numerous, it would be found a very intricate matter to establish satisfactorily the relative value of each. For example, how many sheep shall be given for a cow? How many cows for a horse? How much corn for a bushel of wheat? How much butter for a gallon of molasses? How many eggs for a pound of tea, sugar, or coffee? How many of any or all of these for a cart, plough, spade, chair, table, etc., through an interminable series of exchanges?

Under such circumstances, there could be no such thing as *price*, because there would be no common standard, to which the value of all articles could be referred.

What, then, was wanted? Evidently, some article which all persons, either by common consent or the force of law, shall accept for whatever they have to sell, and by which they will measure the value of anything sold.

That article would perform two important functions; viz., it would be an instrument of exchange, and a standard of value: in other words, it would be money.

We learn the true nature of money, then, from its origin and the functions it performs. These offices or functions we must examine in detail.

1st. As a medium of exchange. This may be wholly conventional. Anything, which, by general consent or in obedience to law, all receive in exchange, will answer the purpose. So far as this function is concerned, it is of no consequence whether the article has value or not: safety and convenience are the only considerations of importance. Money, in this respect, is simply a counter, token, or universal equivalent.

2d. As a standard of value. Value is not conventional. It attaches to all objects which are desired, but cannot be had without effort or labor. Since the value of anything is its power in exchange, we say that nothing is valuable which will not command labor, or that which costs labor.

"Value implies comparison, appropriation, estimation, measure. In order that two things should measure each other, it is necessary that they be commensurable; and, in order to that, they must be of the same kind."—BASTIAT.

Therefore, if we would measure value, we must use an article that has value in it. The measure must evidently have the same quality as the thing to be measured,—weight to measure weight, length to measure length, volume to measure volume, value to measure value.

The standard must be as nearly invariable as possible. An absolutely invariable standard is unattainable, because the standard itself must be subject to the same laws as the objects to be measured;

that is, cost of production, supply and demand, etc. Hence we must take that for a standard, which, on the whole and in the long-run, is subject to the least fluctuation. Of all objects of this kind, we shall see that the precious metals are the least liable to great and violent changes in value.

In examining the principle of barter, we were forced, by its practical difficulties, to accept the resource of a universal equivalent for all commodities. This, in its original form, is money. But the course of civilized industry has introduced several forms of such an equivalent, of which the money, by which men first escaped from the difficulties of barter, is only one. All these forms are classed as currency; and therefore, in discussing the instruments of exchange, next after barter we come to the subject of—

CURRENCY.

This is a general term for all the contrivances by which society seeks to effect a general exchange of values, and discharge pecuniary obligations. There are four distinct kinds or species of currency, each differing from the others in important particulars:

1st. The first of these instruments is called MONEY. Any article, which, having a universally recognized value in itself, all persons accept as an equivalent, or medium of exchange, and which, consequently, becomes the standard by which all other values are measured or determined, and in which all pecuniary obligations are expressed and discharged, is money. Being composed generally

of the precious metals, it is often known as "hard-money currency," but is more properly a *value currency.*

2d. The second kind of currency consists of written promises, made usually by governments, to pay money at a distant or indefinite period, which nevertheless, by force of law or other circumstances, are accepted as money, and perform its general functions. The notes issued by the treasury of the United States, and familiarly known as "greenbacks," now in circulation, are of this description. They form a strictly credit currency, but, in common parlance, are called PAPER MONEY.

3d. A third description of currency is formed of written promises to pay specie on demand, issued in excess of the actual amount of specie, or money, in possession of the promisors absolutely held for the redemption thereof. These notes or promises are generally issued by corporations, called banking institutions, and circulate, while current, as money, performing all its functions. This is called a MIXED CURRENCY.

4th. A fourth kind of currency consists of written promises, payable on demand, issued by responsible parties, for the payment of which, in full, the specie is actually held in trust by the promisors. As such a currency is precisely adapted to all the wants of the trading and business classes, and fully combines convenience with safety, the two great desiderata, it may with great propriety be called a MERCANTILE CURRENCY.

Of the four kinds of currency, it will be observed, that two, the first and fourth, are classed as value

currency; the second, as credit; the third, as mixed, consisting of value and credit.

To obtain a clear and intelligent view of the subject, it is therefore quite necessary, that we divest it of all its usual environments and associations, and, for the time being, even of the forms and terms with which we are familiar, and regard the question as abstractly as possible.

CHAPTER II.

I. MONEY.

Having examined the nature and functions of currency, we shall now speak of the actual money of commerce, or the universally accepted equivalent.

In all ages and countries, this has consisted of the precious metals, gold and silver, with the baser metals or alloys for fractional purposes. Local currencies have been various. Lacedæmon had iron money. The Romans are supposed by many to have used cattle and sheep in the early periods of their history; and their coins bear the images of those animals, as indicating their value. Tobacco was once currency, and a legal tender, in Virginia.

The first currency legally established in Massachusetts was bullets. The "General Courte ordered [March 4, 1635] that bulletts of a full boare shall passe currently for a farthing a peice, provided that noe man be compelled to take above 12^{d} at a time."

Again, it was enacted "that merchantable beaver shall pass at X^{s} the pound." In 1637, the "Courte ordered that Wampumpege should pass at six for a penny, for all sums under 12^{d}." In 1640 and 1641, additional laws were enacted, making wampum a lawful tender.

Many expedients like these have, at different times and in different countries, been adopted to secure a temporary and partial currency; but from the days of Abraham, who paid "four hundred shekels, current money with the merchants, for the field of Ephron," to the present time, the money used in commerce has always been composed of gold and silver. These, and these only, have formed the universal medium of exchange and standard of value

The use of these metals arises from nothing conventional. No international agreement was ever made respecting them; yet they are everywhere and at all times, without hesitation, received in exchange for whatever any one may wish to dispose of. They secure their currency simply by their peculiar adaptedness to the purpose.

What their peculiarities are, we propose now to consider.

1st. *They possess value, that is, have power in exchange.* They cost labor, and are objects of desire. They cannot be had without labor, or an equivalent. They are subject to all the laws of value as truly as wheat or any other commodity.

2d. *These metals are stable in value;* that is, the most so of known commodities. They are subject to no violent changes, like flour or cotton: for ex-

ample, wheat often varies from twenty-five to fifty per cent. in a few months. They change in value, indeed, from age to age; but so gradually is this accomplished as to be quite imperceptible at the time.

3d. They are *conveniently portable;* the most so, in fact, of all commodities existing in adequate quantity.

4th. These metals are *malleable.* They can be wrought into any shape, will receive and retain any impression, may be divided into the minutest quantities, and again united, with the smallest possible loss.

5th. They are of *uniform quality.* Gold and silver are always and everywhere the same. Found in California, Australia, or Russia, gold is everywhere gold.

6th. They may be readily *alloyed* or *refined.* By alloy they are made harder, and so adapted to use as money. However alloyed, they can easily be restored to their original purity without loss.

7th. They are *indestructible by accident.* Fire does not consume them; atmospheric influences cause no decomposition: so that the gold and silver in use in the time of the Ptolemies may form a part of the currency of the world to-day.

8th. They are *universally appreciated.* The precious metals are regarded as beautiful and desirable in all countries, and among all races, civilized or savage. The demand for them is without limit.

9th. They are *generally diffused.* These metals are found in every principal section of the globe,—Europe, Asia, Africa, North and South America, and Australia.

10th. They are *sufficiently plentiful.* Not more than two-thirds of the gold and silver now in the possession of man is believed to be used as money, the balance being in plate or other objects of utility and ornament.

11th. They are nearly *inconsumable by use.* The use of almost all other commodities causes their rapid destruction. Articles used as food or clothing, for example, disappear entirely in a comparatively short period. Even iron, as used for most purposes,—in railroads, agriculture, the mechanic arts, etc.,—lasts only a few years. With gold and silver it is quite different, though the exemption from waste is more remarkable in the case of gold. Indeed, its ordinary and principal use can scarcely be called consumption, it is so gradual.

It has been ascertained, from data carefully obtained in the Bank of England, that gold in coin loses only 4·16 per cent. in one hundred years, or about one per cent. in twenty-five years.

Investigations made at the United States Mint, as by Report of 1862, showed that the wear and tear of gold and silver used as coin was only as 1 to 2400; that is, it cost but one dollar to keep 2400 dollars in circulation. Gold half-eagles only as 1 to 3500 per annum.

When used for gilding and similar purposes, it is much more rapidly consumed; but the amount so employed is very small, in comparison with the whole mass. When used in plate, the consumption is even less than in coin; and a larger part of that which goes into jewelry returns into bullion in the lapse of time.

COINAGE.

Having seen how admirably adapted the precious metals are for use as money, we pass to a consideration of those artificial arrangements by which they are still further and more completely fitted for that purpose.

At first these metals were used in ingots and bars, and passed by weight. Whenever a pecuniary transaction was made, scales were required to determine the quantity given in exchange. This was a clumsy and imperfect mode of payment; for there would arise the question of quality as well as quantity,—of the pureness or fineness of the metal. This could only be ascertained by assay; and that could be accomplished only by persons having the necessary knowledge of metallurgy, with apparatus for conducting the process.

It was therefore natural, that, at an early period, a contrivance was hit upon which obviated all difficulties. The bars, or ingots, designed for money, were first assayed, and made of one degree of fineness. This degree was called the *standard*. The metal thus assayed was then divided into pieces, and the weight carefully ascertained, and stamped upon each. These pieces were called coins; the process, coinage. As this coinage involved great responsibility, it very properly became the duty and prerogative of the government. Each government established an institution for the purpose, called a mint. To these mints the people carried their gold and silver, and, by paying a very trifling seigniorage, had the whole amount returned to them in coin.

Such is the character of a currency composed entirely of money, or that which has value in itself. Of all subjects, this is one of the most simple, most free from all complexity and mystery. No one can fail to understand it. Government has not the slightest occasion to interfere with or regulate it. It obeys certain natural laws, which cannot be improved by man. All that government can usefully do is to certify to the weight and fineness of the coinage. It has no further concern with money.

The main point to be borne in mind, in relation to coinage, is, that government does not determine the value at all, but simply certifies to the weight and purity.

CHAPTER III.

II. CREDIT CURRENCY.

This we have already stated to consist of the promises of government to pay money, which, by force of law or the necessities of the people, are received as money. It is simply the credit of the nation, used as currency. The element of value does not enter into it at all. It is precisely the opposite of a value currency.

CHARACTERISTICS OF CREDIT CURRENCY.

Such a currency may *transfer* debts, but it cannot pay them. The creditor may accept the promises of the government in place of that of an individual, but he receives no value. So far as issued by the

government and accepted for taxes and other public dues, such notes are mere *counters*, used for cancelling reciprocal obligations. If such notes are issued beyond the natural volume of the currency, they can never be kept at par with specie, or circulate at their nominal value. Gold, as compared with them, will bear a premium, the amount of which will indicate the excess and depreciation of the currency.

This premium is the result of the operation of the laws of value; and no legislation of free government or edict of despotism can permanently change it. Governments might as well prescribe the height to which the tides of ocean shall rise, as to restrict or reduce the premium on gold.

Such legislation is not only futile, but injurious, producing an effect just opposite to that intended. It disturbs the market price of gold, destroys confidence in its actual price, and, by exciting distrust, drives the premium far up beyond its natural limit.

The experiment made by the Congress of the United States in 1864 showed most conclusively the utter folly of attempting to interfere with the laws of value. After the "gold bill," so called, became a law, the premium rose at once some fifty per cent. above its previous rate. The unwise act was speedily repealed, and the excessive premium it had caused fell off.

EFFECT OF CREDIT CURRENCY ON PRICES AND INCOMES.

A general rise of prices follows the introduction of a credit currency, because it is always issued in excess of the natural volume of money; and conse-

quently, as prices must, in the average, conform to the quantity of currency, they will advance as it is increased. It is quite idle to attempt to evade the operation of this law. When the Secretary of the United States Treasury endeavored to "float" his bonds by the issue of credit currency, he unfortunately "floated" all the merchandise of the country at the same time, so that the rise of prices compelled him to pay double for all the government needed; and hence he lost at least one-half of all the bonds that were thus sold.

The effect on fixed incomes is very marked. From whatever source, fixed incomes are depreciated in value just in proportion to the depreciation of the currency.

EFFECT ON CONTRACTS.

A credit currency, it may be safely assumed, is always redundant; and, as such, its effect on contracts is twofold. Obligations to pay money made with a specie standard, and paid with credit currency, will impose a loss of value on the creditor equal to the depreciation of the currency.

On the other hand, contracts made to pay money during the existence of a credit currency, but which mature and are discharged under a value currency, will subject the debtor to the loss of all the difference in the value of the two currencies. Great injustice and suffering resulted from this source, on the recognition of American independence, in the last century, among the first of which may be reckoned the Shay's Rebellion of Massachusetts.

Historically, it is found to be true, that a credit currency has never yet been kept within the natural limit of the value currency of the country in which it was established. The "continental money" of the American Revolution; the assignats of the French Revolution; the bank money of England during the Napoleonic wars; and, lastly, the greenbacks, or treasury notes, issued during the late Rebellion, and the present paper currency of Russia and Austria, are illustrations in point.

A credit currency never has been regulated in such a manner as to keep it on a par with specie, and probably never will be. The necessities of government are so pressing that the temptation to increase the amount becomes too great for resistance. As prices rise in consequence, the currency becomes of less and less value, that is, has a decreasing power in exchange, so that the inducement to issue becomes continually stronger as the volume expands.

But the issue of a legal-tender credit currency is, under any circumstances, a great wrong, and can never be justified except in the most extreme cases of national peril; and, even in those instances where it has been defended as an indispensable measure, events have generally proved it to have been a mistaken and short-sighted policy.

CREDIT CURRENCY A FORCED LOAN.

When a government issues its notes as currency, and makes them a legal tender, or authorizes other parties to do so, it creates a *forced loan.*

All creditors are compelled to receive these notes for whatever may be due to them, which is equivalent to making a loan to the government to the amount so received; and those who sell their property are obliged to take these promises, since there is no other currency in use, so that the whole amount thus put into circulation becomes a compulsory loan to the government.

CREDIT CURRENCY A DIRECT TAX.

As soon as legal-tender credit notes begin to depreciate in value, or, in other words, as soon as commodities rise in consequence, each person who receives them pays a tax equal to their depreciation. For example, if he receives a ten-dollar note, which will bring him but eight dollars' worth of merchandise at the gold price, he has contributed two dollars to the government. So, of course, with all who receive notes in payment for debts contracted prior to the issue of such currency.

For illustration, the government issues one hundred millions of its notes at first; and for this, as prices have not been raised, it receives an equal amount in value. It issues a second hundred millions; but prices have advanced in consequence of the first issue, we will suppose, fifty per cent., so that the government gets but $66,666,666 in value. A third issue is made of one hundred millions; but prices have gone up one hundred per cent., and the government gets but fifty millions in value. Another issue of one hundred millions carries prices up to one hundred and fifty per cent., and only forty millions is realized in value. This is not

intended as a statement of the precise fact, but to exhibit the natural operation of such issues, and shows the operation or general result upon the community of a credit currency as a direct tax: but the effects upon different individuals are diversified in every possible manner; one man losing, another gaining by it, according to the position in which the parties are found at the time they were compelled to accept such a currency instead of money. The laws of value having been violated, universal chaos in all monetary affairs is the inevitable consequence.

The final result of the issue of an inconvertible currency, then, is, that, if it is never redeemed, the taxation it imposes is most unequally and unjustly distributed; if it is finally paid, then the taxation is not only unfairly distributed, but the amount vastly increased, since the expenditures of the government have been largely enhanced by it.

CHAPTER IV.

III. MIXED CURRENCY.

MIXED currency is a modern invention, as yet known only to a small part of the human race, and but partially understood even in those countries into which it has been introduced.

The Bank of England, the parent of all mixed-currency institutions throughout the world, was

established in 1694; but its operations were so limited, and its influence so partially felt, during the first century of its existence, that the character of the currency it issued was hardly appreciated. This bank made a grand suspension in 1796, and continued in that state for over twenty-three years. This was the first occurrence which demonstrated practically the true nature of this kind of currency.

If we carefully observe the composition of a mixed currency, we shall find it to consist of promissory notes issued by individuals or corporations legally authorized to do so, in excess of the actual specie held for their redemption.

This is rightfully called a *mixed currency*, because it is, in fact, composed in part of value and in part of credit. So far as specie is held for the payment of these notes, this kind of currency is actually convertible, and equivalent to money; but, in so far as the credit element exceeds the specie, it is only a promise to pay money, and is really inconvertible. It is the proportion of specie, whatever it may be, which determines the *quality* of this kind of bank-note circulation. Its quality is the great question of interest to all who use this kind of currency; and of that we propose now to speak.

THE QUALITY OF A MIXED CURRENCY.

This is by far the most important matter in relation to a mixed currency. What is the proportion of specie held for its conversion? To ascertain this, we must know, on the one hand, the amount of notes in circulation, and the inscribed credits, that

is, the deposits; and, on the other, the amount of specie in bank. We have naught to do with any other inquiry, so far as the *quality* of the currency is concerned. We have no occasion to make such an inquiry in regard to money, for that has value in itself, and needs no conversion; nor in relation to a purely credit currency, for that does not profess convertibility; but a mixed currency, to be reliable and beneficial to the public, must be what it proclaims itself to be; viz., *convertible on demand into coin.*

And here it is necessary to distinguish carefully between the convertibility and the redeemableness of a currency. The first may be uncertain or impossible, while the last may be sure. A bank may be perfectly solvent, while its currency is almost entirely inconvertible.

For example, a bank has promised to pay one hundred thousand dollars in specie, while it has only ten thousand dollars to pay with. The same bank has demands against individuals, for their notes discounted, to the amount of two hundred thousand dollars. Now, it is certain that this bank can convert only ten thousand dollars of its bills; but it can, if sufficient time is allowed, redeem the whole amount, by taking in its own notes in exchange for those of its debtors. The power of the bank ultimately to redeem or cancel its notes may be amply sufficient; though, for the conversion of them into specie, it has the ability only to the extent of one-tenth.

A bank-note converted into coin, the money still exists in circulation: a bank-note redeemed by re-

ceiving it for indebtedness to the bank, is taken out of circulation; that is, it ceases to be currency, and, for the time being, is practically annihilated. The circulating medium of the country is diminished to that extent. This is the one great defect of a mixed currency.

To illustrate this point, and show how much depends upon the quality or convertibility of a mixed currency, we propose to take that of the United States as an example. In doing this, it will be indispensable that we refer to the statistics of banking institutions, and use the terms commonly employed by them; and therefore we now proceed to define them.

LIABILITIES OF A MIXED-CURRENCY BANK.

1. *Capital Stock.*—This is the sum total of all the amount paid into the bank, to constitute its means of doing business.

2. *Circulation.*—This consists of notes of the bank, of different denominations, payable on demand, signed by its officers, and issued to circulate as money.

3. *Deposits.*—These include all sums, from whatever source, that stand on the books of the banks to the credit of individuals. They are properly called *inscribed credits:* they are nothing more or less. They are all legally payable on demand, in specie, to those persons in whose names they stand. A more full description of their nature and effects will be given hereafter.

Bank Balances.—"Due to other banks" and "due

from other banks" are terms used in the official returns made to the Treasury Department of the United States.

They explain themselves. Banks, like individuals, have open accounts with each other. These, in the aggregate, must balance each other; but there is often a considerable apparent difference, arising from the fact that large sums are constantly *in transitu.*

As affecting the character of a mixed currency, these balances are an important item, because they form the most explosive and dangerous element. They are "deposits" in their nature, certain to be drawn in any sudden emergency. This was strikingly illustrated in the autumn of 1857. At that time, the banks in the city of New York owed some sixty millions of dollars which had been left with them by distant banks in order to meet their own liabilities. When the pressure came on, in September and October of the year mentioned, these banks began, of necessity, to call in their balances.

This placed the New York banks in a position of great difficulty. To answer these calls would require a large part of all their means; while, at the same moment, the merchants and business men of the city needed all the resources they could command. But the banks must meet the drafts made for their balances, or suspend at once; and, accordingly, were compelled to cut off all discounts, or loans, to their regular customers. This state of things could not be long endured; and the merchants of the city, being soon driven to despera-

tion, began to draw upon their own deposits for *specie;* and thus a general suspension took place, not only in the commercial metropolis, but through the country.

These balances, as they exist extensively in all great cities, form the train that ignites the magazine, and causes an instant and general explosion. The Bank of England was compelled, in 1847, to obtain a suspension of the act of 1844, by the threat of the banking houses to withdraw their *balances*, and again in 1857, and 1866.

Other Liabilities.—These consist of various obligations, which banks incur in the course of their transactions with the public and each other. They are not large compared with their aggregate liabilities, but must be taken into the account. They may be immediate or remote liabilities, but are mostly immediate.

RESOURCES OF A MIXED-CURRENCY BANK.

Loans.—This item includes the sum total due the bank from its customers for discount and advances, and for which the banks hold notes or other obligations, payable at some future time; say, from one day to four or six months, as the case may be.

Stocks.—Banks are large purchasers of the various national and State stocks, and also those of towns, cities, railroad companies, etc.

Real Estate.—A place of business being indispensable to the operations of banking, buildings are erected for such purposes. These, being often beyond the needs of the bank, are rented in part.

Other Investments.—A general term that includes all kinds of property the bank may hold, from necessity or choice, not embraced in any preceding title.

Notes of other Banks.—As banks, in the course of business, are constantly receiving each other's notes, they must necessarily have, in the aggregate, a large amount, which appear among their assets. Notes thus held in no essential particular affect the general character of the currency: they only concern the relations of the banks to each other.

Cash Items.—Many banks have the practice of reckoning certain assets they hold as equivalent to cash, and class them as "cash items" in their returns. For example, a bank may hold a check upon another bank for a given sum, which, in its account with that bank, and for many other purposes, may be equally available for the time being, with money actually in hand. Checks drawn by individuals on other banks, foreign exchange, sight drafts, and the like, are often reckoned among these items. But, whatever their origin or character, they add in no degree to the strength of the currency. They may help the individual bank that holds them, as compared with the debtor banks, but not the general mass.

Undivided Profits.—Such an item appears in the returns published by the general government, and is of considerable importance. In most banks, it is customary to reserve a certain sum from the profits of each year, to insure against unexpected losses or contingencies. In some cases, this reserve is large; in others, small. It is, for the time being, an increase of banking capital, but adds nothing to the convertibility of current notes.

With this explanation of the terms employed, we proceed to give such statistics of the banks of the United States as shall exhibit the character of the currency they issue.

The first point to be noticed is the aggregate capital of these banks, which we find to be $421,880,095, on the 1st of January, 1860. We have selected that point of time, because the country was then undisturbed, and the currency in its natural condition. This capital, as we have already explained, is the amount which the banks have at their command, and which it is their business to loan out to the public; and, let it be recollected, this is *all* which they can loan, except their own CREDIT, issued in the form of bank-notes, or inscribed in their books as "deposits," in exchange for the notes of individuals or business firms and corporations.

The next point to be noticed is the aggregate of all the assets or property of these banks; and by ascertaining this, and subtracting therefrom the capital, as before stated, we shall find to what extent the banks *have* loaned their credit, and, of course, to what extent credit enters into the currency. The statistics which show this present the following result:

The entire property in possession of the banks, at this time, was	$887,789,762
From which deduct the aggregate capital . . .	421,880,095
Total Credit issued by the banks	$465,909,667

On this amount the banks were receiving interest, or income beyond that received for their actual capital.

This "total credit" issued by the banks was—

Its circulation	$207,102,447
Deposits	253,802,129
Total currency	$460,904,576

The remarkable difference, then, between the *capital* of the banks and their *property in possession*, is the first thing to be noticed in regard to the mixed-currency system, because it shows how it is that large profits may be made upon mixed-currency banking. Interest is obtained upon twice the amount of actual capital. This income, however, is not uniformly distributed among the banks acting under the system. Some obtain more; others, less.

We also see why it is that such banks must be constantly desirous of increasing their loans, by issuing their own credit in the shape of circulation and deposits. The more they can get out, the larger the income. This is the *motive power* that insures the constant expansion of a mixed currency to its highest possible limit. The banks will always increase their indebtedness when they can, and only contract it when they must.

These facts show, too, why a mixed currency exists at all; viz., because those who create it make a profit both on their capital and credit, and as much on the latter as the former.

But still another view of the currency is necessary, to show the preponderance of the credit over the value element in the actual currency:

1860.	Circulation, as before	$207,102,477
	Deposits	253,802,129
	Whole currency	$460,904,606
	Specie, or value	83,594,537
	Pure credit	$377,310,069

This will give eighteen cents and one mill on the dollar as the *value* element, and eighty-one cents and nine mills as the *credit* element, in the entire currency; credit being to value as more than five to one.

But yet another view of the system is necessary, if we would understand the true position of the banks in relation to each other, in case of an actual demand for specie, occasioned by want of confidence or demand for exportation.

Immediate liabilities of the banks of the United States, 1860:

Circulation	$207,102,477	
Deposits	253 802,129	
Due other banks	55,932,918	
Other liabilities	14,661,815	
		$531,499,339

Immediate resources:

Specie	$83,594,537	
Cash items	19,331,521	
Notes of other banks	25,502,567	
Due by other banks	67,235,457	
		195,664,082
Excess of immediate liabilities over immediate resources		$335,735,257

CONVERTIBILITY.

From this statement we perceive the real position of the banks in regard to the *convertibility* of their currency. They owed on demand $335,735,257, which they had no immediate means in their possession to meet; but they held the following assets, or ultimate resources:

Loans	$691,945,580
Stocks	70,344,343
Real estate	30,782,131
Other investments	11,123,171
Total	$804,195,225
After deducting the excess of immediate liabilities, as above	335,735,257
Surplus	$468,459,968

This would seem a sufficiently large margin to guarantee the *ultimate redemption* of the bank currency; but does it secure its immediate CONVERTIBILITY? That is the point; and the answer must depend upon the question, whether the banks can realize from their assets (loans mainly) as fast as the redemption of their deposits and notes may be called for. *If not, they must suspend.* Their loans are on time, from one day to six months ahead, and therefore may not be actually *due*, so fast as the necessities of the banks may require; but, even if they should mature fast enough, the practical question would still arise, whether, if the banks take in their notes and refuse to put them out again, and decline to make their usual loans, as in the emergency of a large demand for specie *they certainly must*, how will it be possible for the debtors of the banks to meet their payments? If the banks could stop their loans just when they pleased, they might perhaps save themselves from dishonor; but they cannot do this, because, unless they continue to make discounts, their customers will certainly fail, since they rely upon discounts to meet their obligations as they become due; therefore they suspend, and then extend, their loans.

CHAPTER V.

ANALYSIS OF DEPOSITS.

Our analysis of mixed currency will be far from complete, if we do not give a full description of the origin and character of what are called deposits, as forming an element most dangerous to such a currency, and generally very mysterious in the popular understanding. To the popular mind, the term "deposits" conveys an impression directly opposite to the truth. They are supposed to be actual money or capital in possession of the banks, while they are in fact debts which the banks owe to their customers on demand.

In the currency of the United States, deposits constitute the largest item, considerably exceeding the circulation.

The nature of these deposits has, until within a very few years, been a matter of serious disagreement among those who ought to be well acquainted with their nature and effects. To present the subject in such a light that it shall be clearly understood, we must carefully examine it in all its details.

First. What are deposits? We have already defined them as credits given to individuals in the books of the banks, for which they are authorized by law to demand the specie. They indicate what the banks owe *on account.*

Secondly. How do they arise? In various ways.

1. A customer may deposit coin, and have the amount passed to his credit. The proportion thus deposited is infinitesimally small, compared with the aggregate deposits.

2. He may deposit checks, drawn by himself or others, on other banks.

3. He may deposit the notes of the same or other banks.

4. He may deposit the notes of individuals, or bills of exchange running to maturity; and, when they are collected, the amount will be passed to his credit.

5. The customer may get his own notes, or the notes of others, discounted at the bank, and the amount is passed to his credit; and this last is the origin of the *greater part* of all deposits.

Of these different kinds of deposits, it will be observed that only one, and that a small one, was in specie; and yet the bank has promised to pay specie on demand alike for all. But it must be observed, that, while all these stand legally on the same basis, as a matter of fact they are practically held by the banks upon different conditions, expressed or implied. They may be divided into three kinds:

First. Permanent or compulsory deposits, made by business men wishing for bank accommodations, in order to secure larger loans.

Second. Fiduciary or trust deposits, made wholly for temporary safe keeping, by executors, guardians, treasurers of corporations, etc., who are receiving funds to be paid out, or invested at a future period.

Third. Active deposits, made by business men, to be withdrawn to meet their current payments.

It will be necessary to explain these different deposits.

The permanent or compulsory deposits are not used at all by those who make them. They are made with the tacit understanding that they are to remain in the bank, and not be drawn upon. They are made to secure favors from the bank, and in order to show a "good account." No bank, perhaps, compels its customers, by any law or rule, to do this; but custom in such a case is as imperative as law. Banks are conducted wholly with reference to profit, and the most profitable accounts will secure the most liberal discounts.

These deposits constitute a permanent loan to the banks, without interest; and the banks can loan the same to their customers upon interest. It is one of the forms in which a bank may secure extra interest in a legal way; but it is done at the expense of those who make the deposits.

This kind of deposits forms a very dangerous element in the mixed-currency system, for the reason, that, when the merchants of any great city are driven to desperation, they may demand these deposits in specie, and then the banks must suspend. This was done in New York in October, 1857, as before stated. The merchants saw clearly, that, unless the banks would make discounts, they could not meet their engagements. The banks refused to do this, because they could not, and continue to pay specie. The merchants then, by concerted action, called for their deposits; and the banks themselves succumbed.

This will always be re-enacted in a time of great pressure, if the mixed-currency system is continued. It is the only remedy which the mercantile interest has within its power. It is properly used, because the banks have no right to make promises which they know perfectly well they cannot keep.

Another objectionable consideration is, that these deposits greatly and unnecessarily enlarge the immediate liabilities of the banks, and give them a frightful preponderance over the immediate means of payment. This injures the credit of the banks in times of pressure. All sagacious financiers look with suspicion on institutions owing ten or fifteen dollars on demand for every dollar they have in their possession. On the 29th of August, 1857, the banks of the city of New York owed for eighty-four millions for deposits and nine millions for circulation,—in all, ninety-three millions,—and had but nine millions of specie.

Compulsory deposits mean, simply, extra interest; but that interest is paid in a manner most burdensome to the depositors, and most dangerous to the banks.

Of the second class of deposits, viz., those *on trust* or for safe keeping merely, it may be said, that they are perfectly legitimate, and may, to a certain extent, be loaned by the banks with safety.

The third class of deposits may be described as follows:

(*a*) A business man, who is making sales each day, will receive, in payment, notes of all the different kinds in circulation. He will also receive checks on different banks. All these he will de-

posit in bank; and the amount is passed to his credit, and becomes a bank deposit.

(*b*) He will also receive notes of hand, drafts, and bills of exchange in payment. All these, when nearly due, he will deposit in bank; and, when paid, they are passed to his credit.

(*c*) Or, if he desires to anticipate the payment of such notes, he may ask the bank to deduct the interest (and exchange, if there be any), and place the amount to his credit; and this the bank will, in ordinary circumstances, be ready to do; and the amount so passed to the credit of the customer will constitute a part of the deposits of the bank.

ARE BANK DEPOSITS CURRENCY?

Lord Overstone has maintained the negative; but most writers in this country take the affirmative side of the question: indeed, there are, at the present time, few, if any, who doubt that deposits are currency. The New York Board of Currency has given its verdict unequivocally as follows: "*They constitute at this time five-sixths of the active currency of this city.*" See the official report of that association for November, 1858. No array of authorities, however, but an examination of facts, should determine the question.

Deposits are an *instrumentality* by which by far the greatest amount of values are transferred in commercial centres. They discharge debts, purchase commodities, and perform all the functions of currency, except circulation.

For example, A has a deposit in the Merchants'

Bank. He purchases of B a bill of sugars, amounting to ten thousand dollars, and pays for the same with a check on that bank, with which B either draws the notes or specie of the bank, or has the check passed to his credit by the bank. This transaction has been equivalent to the transfer of ten thousand dollars in value from one party to the other.

If A owed B a note of ten thousand dollars, he might pay it in the same way.

Now, what difference did it make to A whether he had ten thousand dollars of bank-notes in his till, or an equal amount to his credit in the bank? Clearly, not the slightest. One was as truly currency as the other.

All bankers and business men are well satisfied that deposits are even more active by far in transferring values than the bank circulation; that a much greater number of exchanges is made with deposits than with an equal amount of bank-notes.

A little reflection will satisfy any one that such is the fact. The sum of ten thousand dollars, for example, might easily pay in a single day, in ten different transfers by checks, a total of one hundred thousand dollars. This would not be an extravagant supposition; but it would be quite improbable that bank-notes make ten payments in a single day.

The efficiency of money, or its substitutes, depends greatly upon the rapidity with which exchanges are made. John Stuart Mill recognizes this principle; and it is a very obvious one. The currency of any country is as its quantity multiplied by the rapidity of its circulation. This considera-

tion will lead us to regard the whole amount of deposits as equal in effect to an equal amount of circulation.

CHAPTER VI.

MIXED CURRENCY.—FLUCTUATIONS IN QUANTITY AND QUALITY.

A MIXED currency consists, as we have shown, of two kinds of bank indebtedness, viz., what the banks owe for their notes issued as circulation, and what they owe on account, the payment for both of which may be demanded in coin. We pass now to consider this currency in its several relations to the public wealth. Such an inquiry will demand great carefulness and impartiality, and must necessarily be made in detail.

We have two grand questions which arise naturally at the start:

1st. Does it perform satisfactorily the functions of money? If we answer this inquiry favorably, we have still to ask,—

2d. What, and how great, are its effects on public interests, beyond the proper effects of value currency?

These questions are so full of interest to all the departments of wealth, are so deeply obscured by prejudice and misapprehension, and are so especially important at the present time, that their discussion will be protracted through several chapters.

1ST. DOES A MIXED CURRENCY SATISFACTORILY PERFORM THE FUNCTIONS OF MONEY?

Those functions are, as already stated,—to act as a medium of exchange, and to be a standard of value.

Does a mixed currency perform them well? We answer, no. The essential quality of such a currency, which unfits it to act well as either a standard of value or a medium of exchange, is this:

IT IS NOT GOVERNED BY THE LAWS OF VALUE.

It is subject to quite other laws. It varies as to its volume and character; but we do not find that it does this out of respect for value. The great principle of value is, demand creates supply; supply satisfies demand. They are measured against each other, and are found equal. There is no supply which demand does not call for: there is no supply which is not enough for demand. And the reason for this perfect equality is that value cannot exist without labor. The same cause that increases supply expands demand to the same proportions; the same cause that restricts supply reduces demand correspondingly.

Now, this law controls the expansion or contraction of money, or a value currency. If it is increased, as it may be in the natural course of commercial transactions, it is because actual money has been brought into the country by the balance of trade; but a mixed currency is increased by the voluntary and interested action of bank managers, without regard to the laws of value, and without the addition

of a dollar to the real money, or wealth, of the country. The increase of *money* by importation takes place in obedience to causes that are gradual and appreciable; and any one who watches the course of commerce can anticipate its arrival. If it comes in excess, from any unusual source, it easily and naturally passes off to other countries, till the balance is restored. No artificial appliances or legal enactments are needed to keep true money at a level the world over.

We have found that the quantity of a mixed currency is not governed by the laws of value. Do we, then, find that it is controlled by accident? It would be better so, for there would be more chances of its coming right. But, on the contrary, we find laws positively mischievous substituted for the wholesome operation of supply and demand.

Firstly. Of expansion. The more that is issued of a mixed currency, the more will be wanted. The supply does not satisfy the demand; it excites it. Like an unnatural stimulus taken into the human system, it creaes an increasing desire for more; and the more it is gratified, the more insatiable are its cravings.

There are two reasons for this: one, that, as the currency is expanded, prices are raised correspondingly, and more currency is demanded to effect the same exchanges; the other, that the speculation inevitably following the rise of prices leads to an enormous extension and repetition of indebtedness, which requires, for its discharge, a greatly increased amount of the circulating medium. Thus, by the action and interaction of these causes, the demand

for the issue of this kind of currency is certain to be greatest when it is already redundant. All this, of course, is quickened and helped by the fact that the manufacturers of this currency are ready and eager to crowd upon the public all it will take.

Secondly. Of contraction. We have seen the forces that raise the currency higher and higher. We have not seen that it is done for the public good, or in obedience to a call of trade. We might suppose that there would be an unending progress in this direction, till any degree of expansion should be reached, inasmuch as the law of value does not govern a product into which the element of labor does not enter. It is not, therefore, the expense of multiplying it, nor is its increase limited by any consideration of utility. The cause that limits expansion, and finally produces contraction, is the liability of the notes to be presented for payment in money. The occasion for this cause to operate may be almost anything,—a political convulsion, an adverse balance of trade, a failure of some large trading or banking company.

We will take that one which is most common and sensible,—an adverse balance of trade. If it be large, the demand for specie which it occasions will create a profound sensation among the banks. With actual money, there is, under these circumstances, no reason for excitement or alarm; ten million dollars of the currency will discharge that amount of debt abroad, and the currency at home is reduced but so much. A mixed currency has, in itself, no power whatever to satisfy a foreign creditor. If ten million dollars are to be paid abroad, it must be taken from the specie of the banks; the basis of the

currency is so much diminished, and the circulation must be curtailed accordingly; that is, notes must be brought in, and not put out again till the basis is restored. If the proportion of specie, as is the case on an average in this country, is only as one to five of notes, then the export of ten million dollars abroad must cause a contraction to the extent of fifty million dollars at home. The withdrawal of so much currency, and of that very part which circulates most actively, causes stringency; and stringency causes suspicion. Let another ten millions be called for out of the specie basis, and affairs will become very critical. The legitimate effect of the export, so far, would be to contract the currency one hundred million dollars; but *another* cause is introduced now. Vague apprehensions abound, everybody gets prudent, many are scared, and money is hoarded. Here is another reason for contraction. With a value currency, the fact that it was especially wanted would be a reason why it should stay. Not so with credit money.

It is hardly necessary to trace the course of contractions, they are so familiar to the American mind. The banks know their own position better than any one else. They understand precisely what they must do. They act instantaneously. They curtail their loans. They know that trouble is at hand, and they propose to meet it in the best way for themselves. They know that their notes may now prove their ruin, and they propose to get them out of the way as fast as possible.

There are two classes of banks:

1st. Those who transact all their business in an

honorable manner, and, so far as the nature of the currency they issue will admit, on a secure basis.

2d. Those who get out, and keep out, all they can, and carry their circulation, deposits, and loans as high as possible, without regard to the specie in their vaults. This class is numerous, especially among those of small capital.

In case of a demand for specie, the latter class are obliged to call for assistance from the former, who, willing or unwilling, are equally obliged to give it. The "feeble banks" must be sustained, or the whole system will be suspected. If these be allowed to dishonor their notes, a run will be made at once on all the rest; and, having as we see only one dollar in five to pay with, they must, of course, soon stop paying altogether.

It is commonly said that the banks only increase their issues as demanded by the wants of trade; that they extend their credits, because the public require them as business facilities.

If this were true, it would be of no consequence in the discussion; because, the laws of value having been disturbed in this matter, the demand is no longer normal. We have no longer the assurance that trade will call into use just that amount of currency which it needs.

But it is not true. The movement always commences with the banks. When, by a monetary revulsion, their circulation and deposits have been reduced so low that they feel safe in commencing another expansion, the panic being over, the banks begin to offer extraordinary inducements to their customers to borrow money. They will discount

all good paper offered, even if it has a long time to run. It is not uncommon, at such times, to solicit the privilege of making loans.* As soon as this state of things takes place, all business men begin speculative operations; for prices have begun to rise. Speculation will give a still greater rise to prices, and cause a still greater demand for currency. The expansive force is now in full operation, and is sure to increase in power till by revulsion the equilibrium is restored.

CHAPTER VII.

TABLES AND DIAGRAMS OF MIXED-CURRENCY FLUCTUATIONS.

We have shown, from the reason of the case, that a mixed currency is not governed by the laws of value; and that therefore its variations are controlled by other principles, which give no guaranty to the public good, but, on the contrary, threaten great mischief to the community, both by expansion and contraction.

We now propose to show, by facts taken from official statistics, that such fluctuations are frequent and violent.

The following table exhibits the fluctuations in the *absolute* quantity of the mixed currency (circula-

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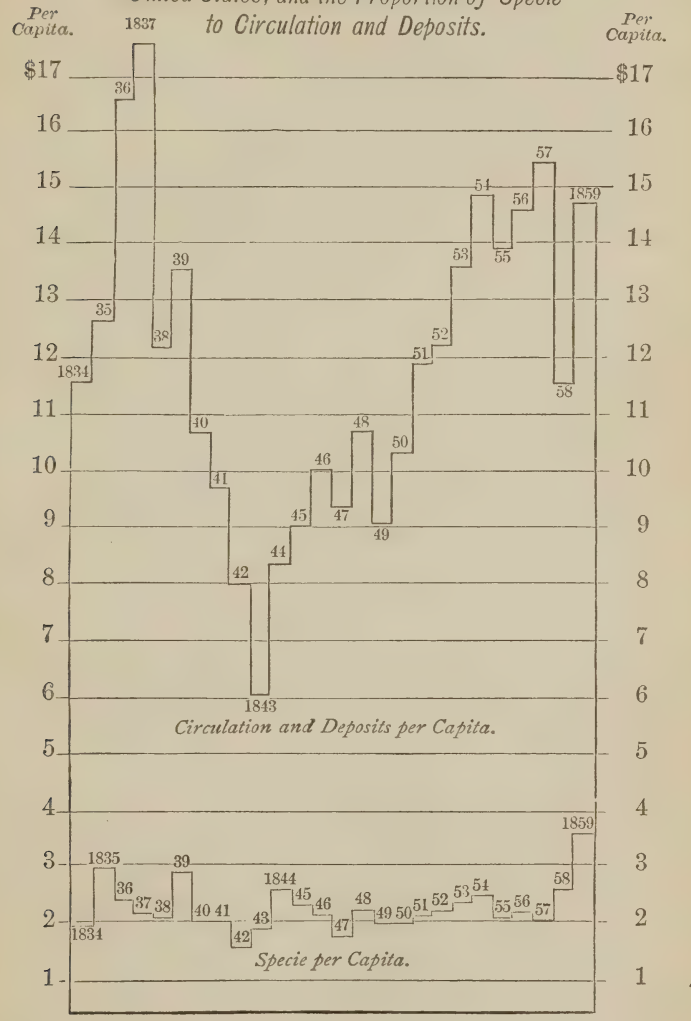
* This is within the personal knowledge of the author as a bank director.

DIAGRAM N°. 1.

Showing the fluctuation of the Currency of the United States, and the Proportion of Specie to Circulation and Deposits.



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There are two things
needed in these days
first for rich men to find
out how poor men live;
and second for poor men
to know how rich men work

Edward Atkinson

~~State Supt~~

~~Entertainment Society~~

~~Secret Society Ins Co.~~

Accident Ins Co

Tontine

tion and deposits) of the United States from 1834 to 1859 inclusive, a period of twenty-six years:

TABLE I.

1834	170,000,000	1847	197,000,000
1835	186,000,000	1848	231,000,000
1836	255,000,000	1849	205,000,000
1837	276,000,000	1850	240,000,000
1838	200,000,000	1851	284,000,000
1839	225,000,000	1852	328,000,000
1840	182,000,000	1853	348,000,000
1841	172,000,000	1854	392,000,000
1842	146,000,000	1855	377,000,000
1843	114,000,000	1856	408,000,000
1844	159,000,000	1857	445,000,000
1845	177,000,000	1858	341,000,000
1846	202,000,000	1859	452,000,000

These facts are collected, as nearly as possible, from the returns made at the beginning of the years mentioned. Therefore the contractions or expansions made during a year do not appear till the return of the next year. For example, the great contractions of 1837 and 1857, beginning several months after January, do not exhibit their full effects till the currency returns of the years 1838 and 1858.

Diagram No. 1, here introduced, exhibits the fluctuations in the currency (circulation and deposits), and also the proportion of specie, from 1834 to 1859 inclusive, both reckoned per capita.

The upper line indicates the currency, the lower one the specie.

This diagram shows distinctly the actual fluctuations in the currency, because its amount, at the several periods, is reckoned per capita. This is a

far more correct mode of getting at the real changes than taking the absolute quantity. The upper line represents the fluctuations in the quantity of the currency, the lower line indicates its quality from time to time.

The following table exhibits the extreme fluctuations in the quantity of the currency of the United States per capita, at different times, with the corresponding variations per cent. in its quality:

TABLE II.

Showing the Extreme Fluctuations in the Currency of the United States per Capita at different Times, with the Corresponding Variations in its Quality, or the Proportion of Specie held for its Redemption.

Years.	Currency per capita.	Fluctuations.	Per cent.	Quality, or specie to circulation.	Variations in quality.	Per cent.
1834	1·82	.....	...	15½ to 100	.....	.....
*1837	17·61	Expansion	50	13½ to 100	Depreciation	11½
1840	10·70	Contraction	39	18 to 100	Improvement	33
1843	6·18	"	42	29 to 100	"	61
1846	9·94	Expansion	61	21 to 100	Depreciation	36
1849	9·18	Contraction	7	21 to 100	Stationary	0
1852	13·31	Expansion	45	15½ to 100	Depreciation	27
1855	13·93	"	13	14 to 100	"	10
*1857	15·50	"	11	13 to 100	"	7
1858	11·55	Contraction	26	24½ to 100	Improvement	73
1859	14·90	Expansion	23	23 to 100	"	2

* Years when the banks suspended. Observe the great expansion between the year 1834 and 1837 of some fifty per cent.; and between 1849 and 1857 of some seventy per cent.

TABLE III.

The following Table exhibits the Composition of the Mixed Currencies of the several States of the Union, Jan. 1, 1860; *that is, the Percentage of Specie to the Circulation and Deposits in the Currency of each State:*

	Per cent.		Per cent.		Per cent.
Louisiana . . .	38·6	Pennsylvania .	21·3	Delaware	9·9
Missouri	37·	Iowa	20·	New Jersey . . .	8·9
Georgia	23·7	Virginia . . .	16·7	Connecticut . . .	7.5
Kentucky . . .	23·4	New York . .	15·6	Rhode Island . .	6.3
Tennessee . . .	23·	South Carolina .	15·5	New Hampshire .	5.7
North Carolina . .	22·08	Ohio.	15·2	Wisconsin . . .	5·5
Indiana	22·3	Massachusetts .	15·1	Vermont	4·2
Alabama	22·2	Florida	10·5	Michigan	4·
Maryland . . .	21·4	Maine	10·	Illinois	2·3

But there are variations, not only in the general currency of the United States, such as we have indicated, but also in the currency of each State, at different periods.

We take that of Massachusetts, in illustration:

TABLE IV.

Exhibiting the Quality of the Currency of Massachusetts.

Year	1835.	1837.	1840.	1843.	1851.	1857.	1859.	1860.
Specie, per cent. . .	7·1	8	18¾	44·1	7·5	8·9	14·6	15·1

Volumes of statistics might be given of the same general character; but these, it is presumed, are sufficient to show the *fluctuating character* of the mixed currency of the United States, both in quantity and quality; and of course, in degree, of all other countries where such a currency exists: for it is, at all times and everywhere, the same in its general characteristics.

CHAPTER VIII.

MIXED CURRENCY AS A MEDIUM OF EXCHANGE.

HAVING shown that a mixed currency is certain to expand and contract, without reference to the healthful and harmonious provisions of value, and to a degree more extreme and dangerous than a currency composed of real money, we are prepared to answer summarily the principal question.

Does a mixed currency perform satisfactorily the functions of money?

1st. Does it act efficiently as a medium of exchange?

Currency, regarded merely as a medium of exchange, may be said to perform two offices: (*a*) To transfer commodities from one person to another. For this purpose, a mixed currency, having a circulation wholly of paper, is found to be portable, readily counted, easily carried, safely kept, and is, consequently, as convenient as any agent that could reasonably be desired. (*b*) To discharge indebtedness between different parties. For this purpose, the thing to be desired is, that currency should be reliable; that is, that there should be nothing in its own nature, which disqualifies it to act *fully*, *at all times*, as a means of discharging obligations.

Coin is always perfectly reliable for the payment of debts. When one debt has been discharged by it, the coin is just as available and acceptable for the discharge of a second or any succeeding debt.

If gold and silver are called for by foreign obligations, they retain their full power to discharge them.

We here make two principal statements:

A foreign demand is the only cause that can take away the real money of a people. We have seen that an indefinite number of causes may take away a currency based, in any degree, on credit.

But, again, a foreign demand can only take away *its own amount* of real money. We have seen that such a cause takes away an amount of mixed currency of which the quantity required abroad is only one factor; the other factor being that number which represents the proportion between the bulk of the currency and the specie basis. In these two statements are clearly shown the entire unreliability of mixed currency to discharge indebtedness. The man who promises to pay money can never know what may be the demand for specie, arising from a want of confidence in the banks, or from a necessity of export; and, of course, can never be safe in giving his notes predicated upon the currency as it exists at the time.

So far as the fluctuations we have shown derange general plans of business, distort prices, work injustice to one party of every bargain, and tend, by such inequalities and uncertainties, to discourage steady enterprise, they do not present themselves here for examination. We shall meet them, when discussing a mixed currency as performing its function as a standard of value. We have to do here, not with the unfairness and injustice with which indebtedness is discharged under such a currency, but with the difficulty or impossibility of discharging it at all.

How does a mixed currency perform the functions of money, so far as discharging indebtedness in times of panic?

Let us suppose the case of the best man in the community. He has, in the legitimate course of business, contracted obligations, all within the limit of his abilities, now coming due. The banks are withdrawing their circulation as largely as possible, and do not mean to let it out again. The fact of his own excellent standing is of no moment in securing discounts; for there is just as much danger to the banks in letting him have their notes as any one else. It is the peculiar hardship of good men, in such times, that it is not *their* credit, but the credit (that is, the condition) of the banks, which is to decide the question of loans. With a value currency, on the other hand, the only matter of consideration is the solvency of the applicant himself.

Of course, there are individuals and institutions, who, in consideration of high premiums and full security, will grant accommodations to a limited amount. A man may try to get along, sacrificing his property to save his name, and paying twenty-four or thirty-six per cent. for loans. Perhaps, if others stood well, he might get through; but all are not so firm as himself. Most have less accumulation and less credit. His *debtors* fail to pay: how can he answer his *creditors?* If he tries to go through, the payments are all one way, like the tracks about the lion's den. He has to pay both sides of the ledger.

We have spoken of the credit element of a mixed currency. But panic, suspicion, apprehension, are

the deadly enemies of credit: when these are aroused in the community, it cannot go abroad. Just as nearly as the object can be accomplished in the time given, all forms of credit will be withdrawn. But this will produce, in its several degrees, stringency, distress, panic, ruin.

Is it, then, too much to say that credit is not reliable for the discharge of indebtedness?

The element of credit introduces a direct hostility between the interests of those who control the currency and those who wish to use it. The interest of the one requires that the notes shall be withdrawn. The interest, nay, the life, of the other requires that they shall be kept in circulation. Is there any such hostility in a value currency? Not at all.

We have said that a sudden and severe contraction is necessary whenever any cause threatens the specie basis of a mixed currency. Such a contraction deprives the community of the means of meeting obligations undertaken when the currency was redundant.

But this contraction, when it has become inevitable, does not take place without danger and loss to the banks themselves; danger and loss being the proper consequences of such operations. The banks make no more loans, or as few as possible. The *means* of discharging debts become less and less in the community each succeeding day, until the rate of interest goes up to two or three per cent. a month, and money can hardly be had at all.

The banks now find themselves in this dilemma: if they make loans, they must keep paying out their

specie. This will soon become exhausted, and they must suspend and be dishonored. If they do not continue to accommodate their customers with the *usual* means of paying debts, the latter must succumb. But, if their customers generally fail, the banks will lose their capital (it being chiefly in the form of notes given by individuals), and be permanently ruined. The history of the country shows on which horn of the dilemma they choose to be impaled. They suspend or stop specie payments, and then furnish the public with an abundance of their notes, such as they are.

After this has been accomplished, and after the credit of the banks has been exchanged for the credit of the individuals who owe them, and after the demand for specie has ceased, the banks can resume payments.

CHAPTER IX.

MIXED CURRENCY AS A STANDARD OF VALUE.

2d. Does a mixed currency act justly as a standard of value?

This function of money is of a very important character. It lies at the foundation of all credit and all business calculations. If no man dealt with or trusted another, or waited a day to receive and con-

sume the reward of his labor, there would be no great need of such a standard. But whenever there is the slightest exchange of commodities; whenever one man trusts another for recompense of service, or applies wealth and toil to an enterprise in the faith of receiving a reward at a future time,—a standard of value must be had, so that all can be done safely, expeditiously, and justly. Unless something possessed the property of being a standard of value, all exchange would inevitably be confined to the gross and clumsy form of barter. It has already been included in the definition of money, that it performs this office. There is not a possibility of taking a scientific exception to this statement; yet a great deal of popular controversy has arisen, which we are obliged to stop here to notice. It has been said, that a dollar, for example, no more measures the value of wheat, than wheat does the value of the dollar; that "the dollar is wholly an arbitrary, conventional standard, forced on the people, unjustly, by legislative enactment."

WHAT IS A STANDARD OF VALUE?

Much confusion has undoubtedly been caused by mistaken views of what is really meant by a standard of value.

Suppose A sells B a tract of land, and agrees to take five hundred oxen in payment at a future day. The value of the land sold is, in this case, clearly measured by the oxen. These latter are the standard by which the value of the land is determined. They form the money, or currency, by which the

debt is legally and rightfully to be discharged. The oxen here occupy precisely the position of the dollar in ordinary contracts; and, if we suppose a community in which they are altogether used as money, they become, without any necessary legal enactment, the universal standard, or that by which all other values are measured and expressed. Value must be determined in some way; and it can only be done by comparison,—by measuring the land against oxen, wheat, gold, or something else that has value.

As long as the land was measured, in the single instance, by the oxen, so long each measured the other alike; but, when the use of the oxen was extended to a comparison with each other commodity in the market, and all others together, *then* it became as improper to say that the land measured the oxen as to say that the wood or the cloth measure the yardstick by which their length and breadth are universally determined.

So, by universal consent, mankind have agreed to measure everything by the precious metals. The laws of the United States, for example, enact that a certain coin, or *planchet*, of gold, nine-tenths fine, and weighing $25\frac{8}{10}$ grains, shall be called a dollar. That is all the government does, all it ought to do. It compels no one to receive the dollar for anything, *unless he has agreed to do so*, any more than it compels him to receive hats or boots, wheat or cotton. But, the government having provided the coin,—that is, having certified to its weight and fineness,—the people, of their own choice, make use of it to measure every other thing. If they buy merchan-

dise or land or cattle, they agree to take so many of these dollars in payment. As society in general adopts this way of determining the worth of property, the dollar, not by law, but by the voluntary preference of the people, becomes the measure, or standard, of value, in all transactions. So far as indebtedness between individuals is concerned, the government makes the dollar lawful tender; that is, if an individual has a just claim for a given number of *dollars*, the government enacts that the same number of *dollars* shall discharge the debt.

Some writers have insisted that people should not be compelled to pay so many dollars in coin; then they should not promise dollars merely, but anything else. The establishment of such a standard is no wrong to the people; for it can easily be seen that payments in any other specific product would be more likely to involve hardships, *e.g.* an obligation to pay wheat or potatoes or cotton at any certain time, would bring infinitely more chances of distress resulting from a failure of the crop in that particular article.

Neither is it an arbitrary act on the part of the government. It is purely a favor, an accommodation, provided at great cost, for the benefit of the public. All objections, on the ground that it is arbitrary and unjust to compel men to discharge indebtedness in coin, are idle and absurd. Those who make them are bound to show, what has never yet been found, a better standard.

We are now prepared to inquire how a mixed currency performs this function.

We have seen its fluctuations, certain to occur,

yet wholly uncertain as to direction and degree. These fluctuations make it plain enough, that, as a standard of value, a mixed currency must work injustice and mischief, both in expansion and contraction. Destructive as are the great occasional convulsions of trade, it is doubtful whether they produce as extensive evil as those minor disturbances which come every year, and, indeed, affect the entire transactions of the people. Arithmetic will hardly suffice to compute losses on a scale of such magnitude. Every bargain, in an industry of three thousand millions a year, is more or less vitiated by a harsh and unnatural change, one way or the other, of the currency.

In the mildest form of such a currency, fluctuations to the extent of fifteen per cent. are shown by our diagrams to be as commonplace as yearly occurrence can make them. If the yardstick were stretched to 42 inches one year, and shrunk to 30 another, or both should happen the same year, without any possibility of anticipating the change, or any public proclamation of it, that fact would influence manufactures, and every branch of production, greatly.

Not to insist here that injustice between the parts is injury to the whole, or to dwell on the claims of public morals, if we turn to that large class especially entitled to social and governmental care and consideration, who put out money at interest or in stocks, or rely on permanent salaries or wages for support, we shall here find a mischief without relief, a wrong without a remedy. These receive no appreciable benefit from any of the changes of a

mixed currency, but all its evils fall heavy and unbroken upon them.

PRICE.

Currency performs the function of a standard of value, by fixing the *price* of commodities. In order to examine the subject intelligently, we shall be called first to notice the import of the term "price." It expresses the relation of all objects to a common measure or standard. For example, if the standard were sheep, it might be said that an ox was worth twenty sheep; the *price* of the ox would be twenty sheep. If the standard were dollars,—that is, certain well-known coins,—we should say that the ox was worth twenty dollars, and that would be its price. And it would be the same, if by dollars we meant only certain pieces of paper, promising to pay these coins.

Price and value are often confounded together. The difference is this: value is the relation which all objects have to each other in exchange; while price is the relation of all commodities to one special object, viz., money or currency.

Price may be increased without increasing value. For example: the price of flour in 1859 was $5; in 1864 it was $10. Yet a barrel of flour had no more value at the latter date than before the war, because it would command no more of other value; that is, of broadcloth or tea, or other commodity.

This discrepancy is found, not only at different periods in the same country, but between different countries at the same time. If all commodities in all countries were always measured by the same

standard, price and value would be synonymous; but if, as often happens, a standard is adopted in one country less valuable than that of others, commodities will adapt themselves to the currency, and the agreement between price and value is destroyed in the act of vitiating the standard.

If an inventory of all the property belonging to the people of the United States had been made in 1864, at the then prevailing prices, it would have amounted to nearly double what it was two years before, even though the quantity of all commodities had been identically the same. This, because *prices* were measured not by gold, but by credit, or the promises of government and the banks; but the *value* of all these commodities in the commerce of the world, and among themselves, was no greater than two years before.

We here present a table, showing the historical variations in certain commodities, for a series of twenty-six years, under the undisturbed operation of a mixed-currency system.

We have selected, for the purpose, the period 1834–1859 inclusive, because it is the only one for which we have correct data,—that is, well-authenticated returns; and for the additional reason that the period was one of general peace, at home and abroad, and the articles selected are the most common in use, whose prices are best known and least liable to variations, except from changes in the value of the currency.

TABLE V.

*Average Price of Ten Commodities in the New York Market for Twenty-six Years** (1834–1859), *with the Amount of Currency per capita.*

YEARS	1834.	1835.	1836.	1837.	1838.	1839.	1840.	1841.	1842.	1843.	1844.	1845.	1846.
CURRENCY, PER CAPITA	11·82	12·58	16·73	17·61	12·44	13·58	10·70	9·82	8·10	6·18	8·34	9·00	9·94
Coffee	11½	11¾	11½	10½	10	11	10	10	8½	7¼	6½	6¾	7
Leather	16¼	17¼	18½	19	18¾	21½	18½	21	17	16¼	15½	14½	13
Molasses, Muscovado	27	30	39¼	35½	34½	31¾	25½	23½	18¼	21½	27	27¼	29½
Mess Pork	13·71½	16·39	22·50	21·08	21·37	14·80	14·80½	11·12	8·41	9·90	9·28	12·46	10·78
Cheese	7	7¼	9	9½	8	9	7	6	7	5¼	4¾	6¾	7
Rice, ordinary	2·81	3·50	3·68	4·01	4·36	4·36	3·38	3·41	2·80	2·64½	3·03	3·81	3·65½
Salt, Liverpool	1·56	1·77	1·91	2·00	1·74	1·74	1·47½	1·59	1·67	1·46½	1·40½	1·37	1·34
Sugar, Muscovado	7	7¾	9	7	7	7	5¾	6	4½	6	6¼	6	6¾
Tobacco, Kentucky	6½	8	7¾	6½	13	13	8½	8¼	5	4¾	4	4½	4¾
Wool, common	30	33¾	42½	43½	38½	38½	32	27	32	20½	30	27	23½
	19·13¾	22·81¾	29·46½	28·40½	28·35¾	22·21¾	20·72¼	17·93¾	13·80¼	14·82½	14·65½	18·56½	16·69

* Financial Report 1863.

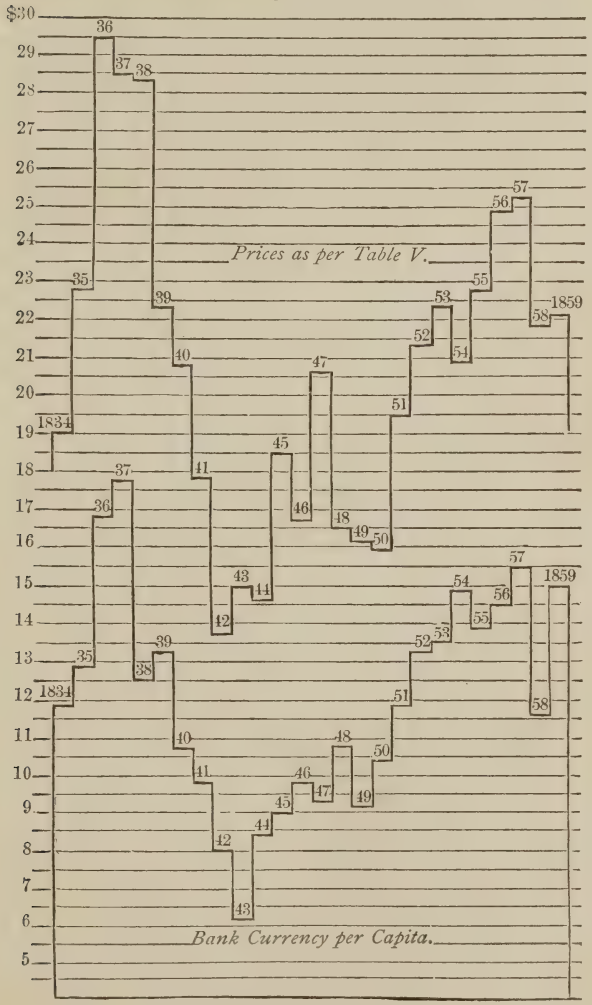
TABLE V.—(Continued)

Average Price of Ten Co[illegible]odities in the New York Market for Twenty-six Years (1834–1859), *with the Amount of Currency per capita.*

YEARS	1847.	1848.	1849.	1850.	1851.	1852.	1853.	1854.	1855.	1856.	1857.	1858.	1859
CURRENCY, PER CAPITA	9·38	10·67	9·18	10·39	11·86	13·31	13·65	14·95	13·93	14·64	15·50	11·55	14·90
Coffee	7	6	6¾	10½	9	8½	9¼	10	10	11¾	11	10½	11¼
Leather	15¾	13¾	15½	15¾	14½	15¼	18½	21	22½	25½	26½	23	24½
Molasses, Muscovado	27	24½	23½	24¼	25¾	22½	22½	22¼	30½	41½	45½	22½	26½
Mess Pork	14·42	11·11	10·78	10·62½	14·02	15·55	16·09½	13·77½	16·06	18·56	18·47½	17·01	16·38½
Cheese	7	7	6	6½	5¾	7	8½	9½	9½	8½	9½	6½	8½
Rice, ordinary	4·12½	3·17	3·46½	3·18½	3·02½	3·71	3·92½	4·39	4·51½	4·14½	4·34	3·26½	3·66½
Salt, Liverpool	1·35½	1·39	1·29	1·36½	1·34	1·20	1·34½	1·59½	1·03½	92½	80	65½	83
Sugar, Muscovado	6	4	4½	5	5	4¾	4½	4¾	5¾	7¾	8½	6	6
Tobacco, Kentucky	5	5¼	6	8¼	8½	6½	7	8	9½	11	14	10½	9
Wool, common	26½	26	29¼	32½	35½	32	41	32½	30	33½	37	30	38
	20·82¼	16·53½	16·45	16·20½	19·42½	21·42½	22·47¾	20·84	22·78¾	25·07½	25·13½	21·92	22·11½

DIAGRAM N°. 2.

Showing the Corresponding Fluctuations in Currency and Prices for 26 Years.



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These facts are shown geometrically in Diagram No. 2.

This Diagram may require some explanation. The upper line represents the variations in the prices of the ten commodities chosen, for each year, from 1834 to 1859 inclusive, as already given in the tables. The lower line represents the bank currency, per capita, for the corresponding years.

Several important facts appear in this figure. The first to be noticed is the remarkable correspondence between the first and second lines, rising and falling together; proving most conclusively, by their agreement through so long a series of years, that prices depend on the quantity of currency in circulation.

It may be objected to this table that it does not give a fair representation of prices, because *one* of the articles included (mess pork) is so much greater in value than the rest as to decide the character of the general result. We have therefore selected, from the same Financial Report (1863), ten *other commodities*, and present them in the following table, which, it will be seen, corroborates Table V., in that it affords the same general facts; viz., *that prices rise and fall with the variations in the quantity of the currency.* The commodities taken are,—Northern corn, per bushel; anthracite coal, per ton; Liverpool coal, per chaldron; fish, per quintal; pig lead, per 100 lbs.; sperm oil, per gall.; tallow, per 100 lbs.; mess beef, per bbl.; lard, per 100 lbs.; and clover-seed, per 100 lbs. These, it will be seen, present a fair average as to the amount of value in each.

The result obtained from a table, constructed from all these, is as follows:

First six years, 1834 to 1839, the aggregate average price was	$72.51.—Currency,	$14.24.
1840 to 1845, the aggregate average price was	52.97.—Currency,	8.69.
1846 to 1851, the aggregate average price was	54.08.—Currency,	10.23.
1852 to 1857, the aggregate average price was	69.77.—Currency,	14.49.

The correspondence exhibited, in the foregoing tables and diagram, between the quantity of currency and the rate of prices, shows conclusively and impressively the effects of a mixed currency as a standard of value; viz., that as it expands or contracts from arbitrary but resistless causes, so prices are elevated or depressed,—variations which are often sudden and excessive.

After making due allowance for those fluctuations which arise from supply and demand and from accidents, the evidence is most conclusive that the quantity of currency in existence does determine, essentially, the prices of commodities; and that, as a mixed currency must fluctuate greatly in amount from its inherent properties, it cannot perform satisfactorily its function as a standard of value.

The foregoing calculations, it will be observed, are made on the currency as estimated per capita. This is regarded as the most correct mode; since, as population increases, it is presumed that the industry and trade of the country is increased proportionally, and, if so, a larger amount of currency will be needed. If the increase of currency is greater

than the increase of population, the *per-capita* calculation will show it.

It may be said at this point, that the same effect on prices would be produced by an equal expansion or contraction of a value currency. Granted; but such rapid and violent changes could not take place. Specie cannot be increased like paper. It costs labor, like corn or cotton, and is subject to the same laws of supply and demand.

To observe further the operation of mixed currency as a standard of value, and its effect, not on trade generally, but on ordinary production, let us take the case of the wheat-grower.

A farmer, we will suppose, has a crop of one thousand bushels of wheat, which he sells at ninety cents per bushel, which is thirty cents more than it would bring under a real-money system. Now, the question—which is of great concern to him, and, if to him, to all producers of all commodities—is, whether he gains or loses by this transaction.

Take a single bushel. He gets ninety cents for it. With that, he purchases six pounds of sugar at fifteen cents. This, he observes, is five cents more than he used to pay for sugar, when his wheat was but sixty cents. He perceives, that, having paid five cents per pound extra on the sugar, he has just lost all the additional price of thirty cents on the bushel of wheat.

This transaction of selling one bushel of wheat for six pounds of sugar fairly represents the result of selling the whole crop, and investing the proceeds in other kinds of property; because all commodities have alike risen in price.

But it may be asked, Suppose the farmer paid a debt of nine hundred dollars with the money he obtained for his wheat, has he not gained by the rise in price? If he contracted the debt before the rise, he certainly has made a large gain in the payment of the debt; for, as things were when the debt was contracted, it would have taken fifteen hundred bushels of wheat at sixty cents to pay nine hundred dollars. Here he has gained three hundred dollars, or saved five hundred bushels of wheat, less, be it recollected, the extra expense of fifty dollars in the raising of the crop. His net gain is two hundred and fifty dollars.

But how is it with his creditor? He finds, on reinvesting the money in cattle, horses, sheep, ploughs, wagons, and the like, that the nine hundred dollars will purchase but two-thirds as much as when he loaned the money. He has lost three hundred dollars. The farmer promised to pay "dollars;" but he did not, he only paid the promise of dollars; and these promises were so easily made, became so plenty, proved so cheap, that they were really worth but two-thirds of what they professed to be. This he found when he came to use them in buying articles for his family.

Much misapprehension arises from confounding special and general prices, or the price of an individual article, as distinguished from that of the great mass of commodities. We are told that a variety of considerations enter into and affect prices; viz., demand and supply, cost of production, etc. etc. All this is perfectly true of an individual article, whose price may and does vary from time to time, as com-

pared with other commodities, under the operation of these causes. One article may be very high, while all others are low, or the reverse; but this does not tend to disprove the principle, that general prices are determined by the quantity of the currency.

CHAPTER X.

EFFECTS OF A MIXED CURRENCY.

We stated two principal questions in regard to mixed currency:

1st. Does it perform satisfactorily the functions of money?

2d. What, and how great, are its effects on public interests, beyond the proper effects of value currency?

In the four chapters immediately preceding, we have discussed the first question, with a result unfavorable to such a currency. We now approach the second of these questions,—What are the effects of mixed currency.

I. A mixed currency endangers domestic tranquillity. This is a proposition which we shall consider solely with reference to society in the United States.

That mixed-currency banks can never, in fact, fulfil their agreements, if called on to do so, we have already shown; and, since they are ever liable to

such calls, there is constant danger from this source. At any moment, there may reasonably arise, through this cause, such general dissatisfaction among the lower classes as shall tend to extensive disturbances of the public peace.

This danger is greatly enhanced by the fact, that, within the last forty years, there has been created a vast system of savings institutions, which receive the money individuals are disposed to deposit with them, and promise to return it on demand, or at short notice; generally on demand.

Now, should any cause operate by which confidence in the solvency of the general banking system of the country is shaken, it will naturally, nay, inevitably happen that a run will be made on the savings institutions. These can only meet their engagements by drawing on the banks. But, if these have all their resources strained to meet the ordinary wants of the business community, how can the drafts of the savings banks be met? How can currency be supplied for this extraordinary demand? This question can only be intelligently answered by reference to the condition of both these kinds of institutions.

We will, for this purpose, take the currency of Massachusetts as it stood in 1860:

The savings banks had on deposit		$45,000,000
The currency banks had	deposits	30,000,000
	circulation	25,000,000
Total		$100,000,000
The currency banks had specie		6,500,000
Difference		$93,500,000

Here, then, are legal immediate demands, upon the currency banks, of fifty-five millions; and, upon the savings banks, of forty-five millions. Suppose there should arise some dissatisfaction, or public uneasiness, which should prompt to a run on both these kinds of banks. It certainly is possible, not to say probable. Suppose that the institutions for savings are called on for only one-fourth of their deposits. They must look to the banks for eleven millions of currency at once. The banks begin to pay out their bills; but the specie is at once demanded, and of that they have but six and one-half millions against their own immediate liabilities of fifty-five millions. They could not stand a run of two days, because their own deposits would be drawn in specie just as soon as the real state of affairs was discovered. The banks must, therefore, suspend at once. What would naturally follow in a time of great public excitement, when the interests of some party or faction required a general breaking-up of society?

It is not enough to evade this, by saying that such an event has never happened, though the banks have several times suspended. That is quite true; yet it does not follow that it never will. Previous suspensions have originated in commercial causes. Suppose, on the other hand, a run were made on account of political or social disturbances; that the laboring class—factory operatives, railroad gangs, the servants in our families—were incited to demand their deposits in the savings institutions. Could they not prostrate the entire currency in twenty-four hours, by merely demanding their just dues?

Should the present national banks resume specie payments, under the mixed-currency system, they will be exposed to the same dangers.

II. A mixed currency has a demoralizing influence upon a community, industrially and socially.

If what has been said in regard to this kind of currency is correct, such an influence cannot for a moment be questioned. If it excites to wild and extravagant speculation at one time, and plunges its victims into bankruptcy and ruin without fault at another; if it excites hopes and expectations which must necessarily come to disappointment and distress; if it increases to an enormous extent the natural risks of trade, and exposes all business operations to an incalculable hazard,—then the mercantile character and the general tone of morals cannot but be unfavorably affected.

III. A mixed currency endangers the national safety in war.

With the existing ideas and institutions of society, and while no preparations are made in time of peace to prevent the recurrence of war, but every effort to meet it, and thus, of course, to strengthen and perpetuate the war system, it becomes a matter of great interest to inquire as to the effects of a mixed currency on the safety of a nation in the event of war.

We have already shown that a mixed currency is greatly affected by a demand for specie to send abroad. Hence, as war must always call for an extraordinary importation of foreign merchandise and materials, and as such extraordinary importation must require the shipment of specie, a con-

traction and panic, or speedy suspension, must be the certain consequence.

Again, since so great a part of a mixed currency usually consists of credit, and since credit rests wholly on confidence, anything which impairs the latter compels a contraction or withdrawal of the currency.

Now, war generally, we may say uniformly, does this: for how long it may last, how great may be the demand for money, how large the destruction of capital, and what the final issue, must be a matter of doubt; and therefore its occurrence always impairs public confidence to a greater or less extent.

These two causes, then, are at once brought to bear upon a mixed currency with fatal effect. The result has always been, and always must be, that, under such circumstances, the mixed-currency banks suspend; because their circulation cannot be withdrawn at the time without producing universal bankruptcy, annihilating their own capital, and stopping the wheels of government. It was so in England during the war with Napolen; in the United States during the war of 1812, and in the time of the great secession movement.

What comes in consequence of all this? The nation is obliged to carry on its vast pecuniary operations with a broken-down currency. This, of course, involves the finances in great embarrassment, vastly increases the public expenditures and the national indebtness. The whole financial system of the country is crippled, and becomes as weak as its currency.

No better illustration of the truth of this state-

ment was perhaps ever afforded than that found in the experience of the United States during its great struggle. The country was suddenly involved in a stupendous war,—technically, only a civil war, but, practically, a great international struggle, so vast were its dimensions, so strictly was it sectional; a conflict between two different civilizations, on different though contiguous portions of the American continent.

At the commencement of the struggle, the currency, as we have before said, amounted, circulation and deposits, to four hundred and sixty millions against eighty-three millions of specie. Upon the mere threat of secession, so greatly did it impair public confidence that the banks at the South began to suspend; and their example was followed until most of the Western, and many of the Eastern, were in a state of suspension. After the first shock had passed by, most of the banks in the loyal States resumed specie payments; but the large demands of the government, in the course of about a twelvemonth, compelled a universal suspension by both the national treasury and the banks, and the whole country was thrown upon an irredeemable paper currency. All this happened, not because the currency was so redundant, but because it was so unsound. Had it been based in full on specie, this disastrous result would have been avoided.

In time of war, a mixed currency always becomes an unmixed paper currency. Being at all times really inconvertible, any disturbance in public affairs which destroys, or even essentially impairs public confidence, will cause a general suspension of the

mixed-currency banks, and, of course, of the government, and the substitution of a credit for a value currency.

If these are the natural and inevitable results of a mixed currency in such an event, is it not true that a people imposing on themselves a mixed currency can *never be* financially "prepared for war?"

IV. A mixed currency discourages domestic manufactures, disturbs the proper relation of exports and imports, and puts the balance of trade against the people employing the greater proportion of credit.

These effects will be recognized as injurious by all classes of persons; but those who are so solicitous for the positive encouragement of domestic manufactures, and for the restraint of imports, as to favor the enactment of prohibitory or protective laws imposing duties on the foreign article, will, of course, most fully appreciate and deeply feel this tendency of a mixed currency.

The course of this will be best observed in an illustration from the manufacture of a specific article:

"Suppose that a certain kind of broadcloth can be afforded by the foreign manufacturer, delivered at New York, for two dollars per yard; the same article might be made in this country, but would *cost* two dollars a yard, without any profit whatever. Of course, then, we cannot afford to make the article. The government, in order to encourage its production here, lays a duty upon the imported article of fifty cents per yard; but, at the same time, establishes banks which manufacture a mixed currency, and double the natural amount of money. The American manufacturer now proceeds to erect his mills; but wages and materials have so advanced in price, by the expansion of the currency, that it costs him twenty-five to fifty per cent. more than it otherwise would have

done. He builds machinery; but this also costs him proportionably high. He proceeds to purchase raw materials, and employ labor in manufacturing; but all are advanced in price for the same reason. His own expenses for living are also greater; and, should he be obliged to hire money, that will generally be found to have advanced in price, or rate of interest. Under these circumstances, he cannot make the cloth so as to afford a profit; and it will not be surprising if he should clamor for more protection. But it may be said, that the same causes that have advanced the expenses of living, and, consequently, of labor, will equally have advanced the price of broadcloth. Not so. The price of the broadcloth will be determined by the rate at which it can be afforded by the foreign manufacturer; and if he can pay the duty of fifty cents per yard, and yet obtain a fair profit, he will send all the market demands.

"There is another view of the matter. Suppose we would export our plain cottons, for example, to India. We there meet the English article, made under a currency more valuable than our own, which can consequently be afforded for less; since, with the *same* amount of the money of India (*i.e.* value money), the English manufacturer can pay for much more labor in England than the American manufacture can in America."*

During the continuance of the compromise tariff, established in 1832, and which terminated in 1842, the currency varied from $11.82 to $17.61 per capita, equal to an expansion of more than fifty per cent.; while, during the same period, prices (as shown by table V., pp. 191, 192) fluctuated to a greater extent. The variation in prices was larger even than the percentage of protective duties.

So the tariff of 1842, which began to take effect in 1843, when the currency was $6.18 per capita, was more than counterbalanced by the expansion of the currency to $9.94 in 1846. But the manufacturer suffered as much from the periodical con-

* Walker on Money and Mixed Currency, p. 39.

tractions as from the expansions that preceded them; for while, by the latter, the duties were rendered nugatory, all business men met great losses from the failures and the general derangement and stagnation which the former produced. No tariff of reasonable extent, such as the people of the whole nation would endure, can ever place the domestic manufacturer in a position of security and of reliable profit, while competing with such an immense advance in prices as must certainly accompany an expansion of the currency. The average tariff in 1868 was forty-eight per cent., but the cost of manufacturing, owing to the depreciation of the currency, was some sixty per cent., so that the duties designed to be protective were more than neutralized.

The terrific struggles through which American manufacturers have passed, ever since the establishment of the first tariff in 1816, have been caused, not by foreign competition, solely or mostly, but by a false and delusive domestic currency.

PROTECTION AND CURRENCY.

There is a still more striking view of the connection between protection and currency. It is generally believed that high tariff duties restrict the importation and consumption of foreign merchandise. It is a popular cry, that "government ought to lay heavy duties, so as to prevent an adverse balance of trade, and the consequent shipment of specie abroad."

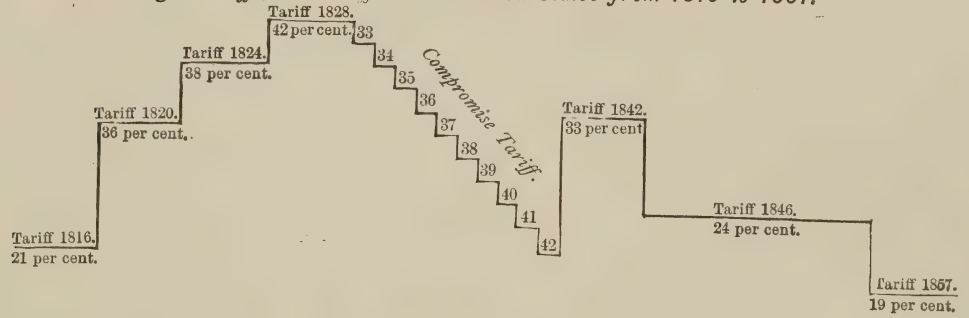
It is true, as a principle, that, the greater the

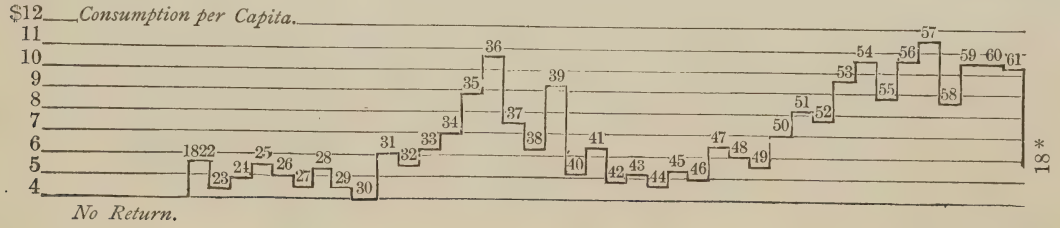
price, the less the consumption; and that, as the imposition of taxes on the foreign article increases price, so it must, other things equal, decrease consumption. But other things are not equal. They have not been so in this country during this century. The facts in the case do not show that heavy duties necessarily reduce the consumption of foreign articles. On the contrary, it is found that the largest importation has often taken place during the existence of the highest tariffs. Diagram No. 3 will exhibit the relations of the tariffs to the amount of imports, from 1816 to 1861.

The tariff of 1816, the first ever laid for protection, averaged twenty-one per cent.; it was increased, as we have seen, to forty-two per cent., and became nearly prohibitory on many articles, especially the coarse woollens worn by the slaves. This gave such great umbrage to the cotton-growing States that the compromise tariff of 1832 was enacted, which brought the duties down to twenty per cent. in 1842. This was, unfortunately, a time of great depression of prices and trade, growing out of the monetary revulsion through which the country had just passed. A strong and successful appeal was made for an increase of duties; and the tariff known as that of 1842 was established, giving high protection. This occasioned so much dissatisfaction, that, after four years, the rates were again reduced by the tariff of 1846. This remained in operation for the unprecedented period of eleven years, when another reduction was effected by the tariff of 1857. This lasted four years, when the necessities of the treasury, in consequence of war, induced the imposition

DIAGRAM N°. 3.

Showing the different Tariffs in the United States from 1816 to 1861.





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of higher duties in 1861, since which they have been still further advanced.

WHAT THE DIAGRAM TEACHES.

With these explanations of the diagram, we are prepared to inquire into its teachings.

Is there any such correspondence between the two lines as to indicate that one is governed by the other? Does it appear that, as the tariff rises, importations fall off; that, as it is lowered, importations increase? Certainly not. We can perceive no such striking correspondence between the two lines as to lead us to believe that importations are governed greatly by the tariff. There seems to be a disturbing influence which deranges the natural movement of the line of consumption. The two lines clearly do not show such a correspondence as to prove that importations are uniformly governed by the tariff.

IMPORTATION AND CURRENCY.

A reference to Diagram No. 4 will, we think, show the disturbing cause, or rather by what law importations are controlled. In this we find a correspondence so uniform and persistent as to decide the question, beyond dispute, that the demand for foreign merchandise depends upon the quantity of currency in the country; and, as that increases or diminishes, so does the consumption of imported articles. The immense expansion of 1836 carried the consumption up to $10.93 per capita, under a tariff of 31.6 per cent.; while, under a lower one, in

1840, the consumption was but $5.21. Whereas, if consumption is governed by the tariff, it should have been higher than in 1836.

According to the natural effects of the tariff (the enhanced price of foreign commodities), consumption should be uniformly highest when the tariff is lowest, and *vice versa*. We have seen that such correspondence does not take place. We then conclude that some other force or influence operates to neutralize the power of protective duties, and even reverse the natural effect. The last diagram proves the existence of such a cause, and shows its effects on imports.

Hence we lay it down as a *principle* that a sound currency is more important as affording protection against foreign competition than a high tariff.

CHAPTER XI.

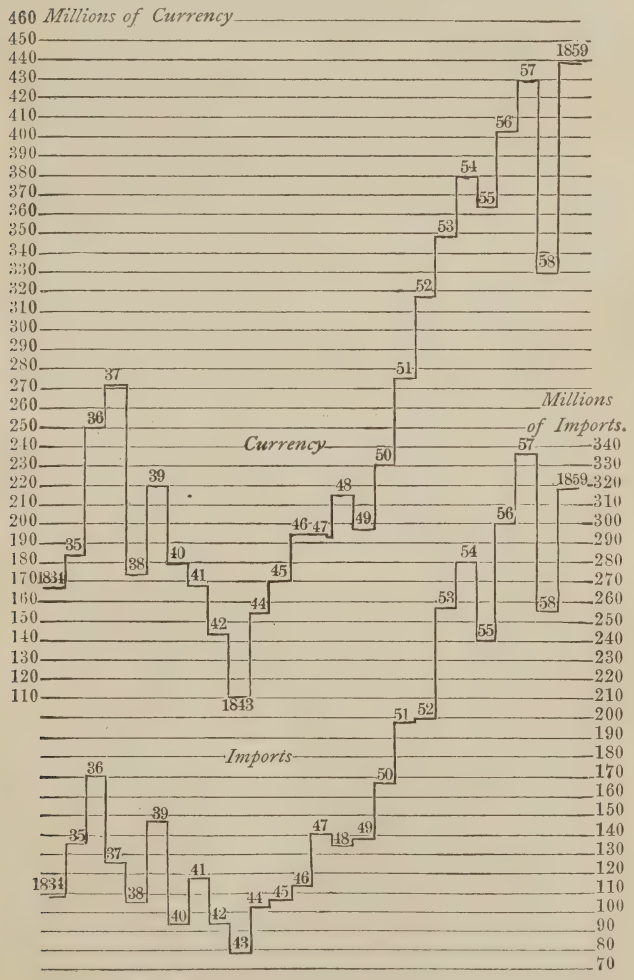
EFFECTS OF A MIXED CURRENCY (*concluded*).

V. A MIXED currency causes unnatural and extreme fluctuations in the rate of interest.

If a mixed currency is in its nature constantly fluctuating, at one time very redundant, at another very scarce, it would seem to follow, as a necessary consequence, that the rate of interest, which is merely the sum paid for the use of money, or currency, would be equally so. Practically, we find that such is the fact. While the currency is *in the process* of expansion, and is enlarged by new issues from day

DIAGRAM N°. 4.

Showing the Volume of the Currency and the Imports for Consumption for 26 Years.



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to day, money must be plenty, and the rate of interest low.

When the currency has become largely increased, and speculation has been engendered by the rise of prices, the demand for money will increase faster than the supply, and the rate of interest will begin to advance.

When the banks have arrived at that point at which they must of necessity contract, and they begin to take in their currency, and, of course, to create a scarcity of *the means of paying debts*, then the rate of interest will rise to a very high point, not unfrequently to four or six times its natural rate.

The indebtedness which the expansion has encouraged must now be met, at all events and at any sacrifice. Sales of property cannot be made for cash, because all cash resources are needed to meet existing indebtedness, rapidly maturing; and, consequently, a great pressure is made upon the money market. The severity of this is indicated by the rate of interest.

Such being the facts in the case, we need not be surprised to find that the highest rates of interest are paid at times when there is far more than the average amount of currency.

On the other hand, when indebtedness has been discharged, both by the banks and individuals, and the currency reduced to very moderate dimensions, we find the rate of interest very low. Take the years 1837 and 1857. Interest was up to three per cent. per month; yet there was a greater amount of currency, per capita, then in use, than ever before. Take the years 1842–43, for an opposite example,

when there was less currency than ever before. Money was very plenty and very cheap.

This law has governed the rate of interest at all times under our currency, and is strikingly exhibited in our Diagram No. 5, inserted herewith.

By this diagram, we see,—

First. The frequent and extreme fluctuations in the rate of interest.

Second. That the highest rates of interest occur when there is the greatest expansion of the currency, as witness 1836, 1839, 1854, and 1857.

Third. That the lowest rates of interest are found where there is the smallest amount of currency, as in 1843–45.

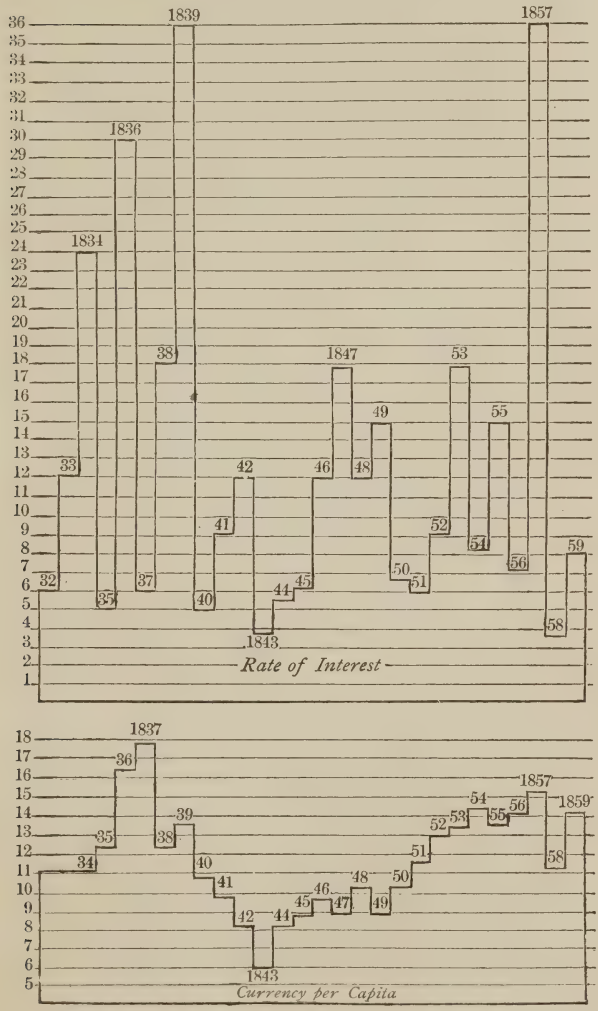
Fourth. We observe some remarkable exceptions to these general facts.

In 1834, we find the interest up to twenty-four per cent., while, in the following year, it was down to five. This is easily explained by those cognizant of the facts. The United States Bank then in existence was extremely desirous of recharter; and, to secure this, it was thought necessary to produce a tremendous pressure in the money market. The result was a high rate of interest. The following year, 1835, the bank took the opposite course, and interest fell below the natural rate.

In 1836, there was a great expansion of the currency, as shown in the lower line of the diagram. Speculation was rife, the banks could not meet the demand for money, and interest went up to thirty per cent. In 1837, the banks suspended, then issued freely, and interest went down to a low point. In 1838, the work of contraction began; a multi-

DIAGRAM N°. 5.

Showing the Fluctuations in the Rate of Interest and Volume of Currency.



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tude of banks in the West and South failed, and the pressure upon the solvent banks became great; interest went up to eighteen per cent. The year 1839 witnessed still greater distress for money. Resumption of specie payments by the banks began to take place, and consequently a great contraction of the currency. There was also a very large exportation of specie that year; and, by these combined causes, the rate of interest ran up to thirty-six per cent. In 1840, on the other hand, more specie was imported than exported. The indebtedness of the country had been, in great measure, discharged, and money was plenty. Interest was down to five or six per cent. In 1841, there was again an export of specie, and also in 1842; and the rate of interest went up to nine and twelve per cent. But, in 1843, the lowest point was reached, more than twenty millions of gold were imported, and money was a drug. Interest was, for awhile, almost nominal. Large amounts were negotiated as low as three and a half per cent.

From this time forward, we have only the *natural* results of a mixed currency in its fluctuations. In 1847, the rate of interest was high,—eighteen per cent,—though the currency was not redundant. This was the year of the Irish famine; and we imported twenty-two millions of gold above the exports. From 1849 to 1857, the currency was constantly increasing. Severe fluctuations in the money market took place, but no grand revulsion until 1857, when so great was the inflation of the currency, and consequently the general credits of the country, that an explosion took place; interest

going up to thirty-six per cent. All these facts are significant, and form an essential part of the history of mixed-currency banking.

Here it seems proper to mention the remarkable fact, that the rate of interest is now, 1871, and has been for some time, much higher upon mortgages than upon business paper. Up to the issue of legal-tender notes, loans on mortgage could uniformly be negotiated at a lower rate than the current discount rate at the banks. When the latter was six to eight per cent., the former, for large sums, was often but five. Now the case is reversed, and mortgages are being made at seven to ten per cent. in the Eastern States and much higher in the Western, while money is plenty on call or short time at four to six. The reason is obvious. Capitalists, owing to the abnormal condition of the currency, choose to have their funds where they can command them at short notice, while rents being very high, those wishing for houses, stores, etc., can afford to pay a high rate for the means wherewith to build.

UNEQUAL EFFECTS OF MIXED CURRENCY UPON DIFFERENT INTERESTS.

Unfavorable as the influence of a mixed currency is upon the general industry of the United States, it will upon examination be found far more detrimental to some branches of production than to others, and that agriculture, the chief interest of the nation, is by far the greatest sufferer. The reason of this can, we think, be made sufficiently apparent.

Other things equal, the general average of prices is determined by the quantity of currency in circulation, and prices advance or recede as that is increased or diminished. A particular article at a particular time, owing to some circumstance connected with its production or the demand for it, may rise or fall in price as compared with other commodities, but the general prices of all objects of value will ever depend upon the quantity of currency existing in the country in which they are produced and sold. This is an economic law as certain as any of the laws of Nature.

It must be borne in mind, however, that if the currency of the country be a local or unnatural one —that is, different from the currency of commerce, which is gold and silver—it will accurately measure only those commodities which are wholly produced and consumed within the country where such local currency is used. If there be any commodity of which the country necessarily raises a surplus that must be exported, and the local currency is in excess of its natural volume, or what it would be if composed of coin, such article will not be measured correctly as compared with all others, because its price depends upon its value for shipment to a foreign market, where it will be measured by the gold standard. Such article is neither raised in value by expansion nor depressed by contraction of the local currency. The reason is obvious. There cannot be two prices for the same thing at the same time, and what it is worth for shipment will determine the value of the whole product, whether consumed at home or sent abroad.

On the other hand, all articles produced and consumed *wholly at home*, like boots and shoes, farming-machines and implements, furniture, carriages and the like, are measured by the existing currency, without reference to the gold premium, except to the extent that the materials of which they are composed are of foreign production, upon which the gold premium has been charged. All these home-produced and home-consumed articles feel the full effects of a redundant currency, however great that redundancy.

The position of the farmer or planter, and, we may add, of the man who mines for the precious metals or petroleum, is this: The commodities he is compelled to purchase for his necessary consumption are raised in price by every unnatural expansion of the currency, however great it may be, while his own commodities are not raised in price at all by such expansion. This may be seen in the facts presented in the following table:

TABLE VI.

Showing the Price of Flour and Cotton from 1846 *to* 1859 *inclusive* (14 *years*), *with the Currency per Capita, and General Prices at corresponding Dates.*

YEARS.	Price of Flour.	Price of Cotton.	Currency, per Capita.	General Prices.	YEARS.	Price of Flour.	Price of Cotton.	Currency, per Capita.	General Prices.
1846 . .	$5.06	7½	$9.94	$16.69	1853 . .	$5.77	10½	$13.65	$22.47
1847 . .	6.67	8	9.38	20.82	1854 . .	8.94	9	14.95	20.84
1848 . .	5.96	8½	10.67	16.53	1855 . .	8.76	9¼	13.93	22.78
1849 . .	5.50	8	9.18	16.45	1856 . .	6.42	10½	14.64	25.02
1850 . .	5.55	12	10.39	16.20	1857 . .	5.78	14	15.50	25.13
1851 . .	4.52	10	11.86	19.42	1858 . .	4.30	13	11.55	21.92
1852 . .	5.00	9	13.31	21.42	1859 . .	5.10	11½	14.90	22.11

This table proves conclusively that while prices in general conform remarkably to the existing quantity of currency, flour and cotton do not rise and fall with its fluctuations. Flour, for example, in 1846, with a currency of 9.94, was at $5.06; while in 1851, when the currency had risen to 11.86, an advance of twenty per cent., flour was at $4.50, a *decline* of ten per cent. Cotton was at 12 cents, under a currency of 10.39, in 1850, and but 9 cents, under a currency of 14.95, in 1854.

If the views here presented are sound (and they are certainly based upon indisputable facts), we have established a most important principle, viz., that while no industrial interest is benefited by credit expansions of the currency, one branch of production, and that by far the largest, is most essentially and unjustly injured, and made to bear by far the greater part of the loss inseparable from the use of a fluctuating and defective standard of value; speculators and the issuers of false currency being the only gainers by its use.

The truthfulness of the principle laid down is more strikingly shown at the present than any former period.

The prices of agricultural products are now (1871) nearly or quite as low, and in some cases lower, than in 1860. Superfine flour has been quoted during the present year in New York at $4.45 to $4.95, and mess pork, worth in 1860 $18.25, has been sold at $14.50.

Wheat has been no higher in 1871 with a currency (circulation and deposits) of $30 per capita, than in 1860 with a currency of $14 50 per capita.

If we contrast prices of the farmer's staples with those of articles wholly produced and consumed at home, like boots and shoes, farming tools and machines, furniture, carriages, and the like, which are measured by the existing currency and varied in price some 50 to 75 per cent., we shall realize how greatly this class of persons is injured; yet these results are simply an exaggeration of an ordinary mixed currency expansion such as the country has long been familiar with.

But this is not all the damage the agriculturist suffers, because while he gets no more for his products, the wages he pays are nearly 50 per cent. higher than in 1860.

The productive industry of the country may be divided into three principal kinds,—viz., agricultural, manufacturing, and mercantile,—the first employing a large majority of the whole population, and of course producing a large surplus of commodities to be sent abroad, while the products of the second are consumed almost entirely at home. The great staple of agriculture is *corn* (to use the English term) in its varieties,—wheat, maize, rye, oats, barley, etc. The average value of either one of these determines the value of all the others, because if any one—wheat, for example—brings a higher price in proportion to its cost, the production of that article is certain to be increased until reduced in price to an equality with the rest.

It may be thought that cotton must be an exception to what we have laid down, since its price is now greater than before the war. It is worth at pres-

ent, say 20 cents per pound,* while from 1850 to 1860 the average was but 10½ cents. This higher price, however, is owing to the fact that the production of cotton has been greatly diminished by the effects of the late contest in demoralizing labor. If the product were now as large in proportion as in 1860, the price would doubtless be as low. The amount raised in 1850 was 2,096,706 bales; in 1860 it was 4,669,770 bales,—an increase of 130 per cent. in ten years. Had the production of cotton gone on at the same rate of increase, the crop of 1870 would have reached 10,740,471 bales! With such a crop, or even two-thirds of that quantity, would prices now be higher than in 1860? Cotton, we may rest assured, will not be found an exception to the law which governs prices when its production has been fully restored. The planter will then have as much reason to complain of the currency as the wheat-grower. There will then be as much occasion for "despondency" at the South as there now is at the West.

MANUFACTURES.

The manufacturing interests of the country present a strong contrast to those of agriculture, the products of the former being measured wholly by the local, the latter by the general, standard of value. Hence it is comparatively a matter of indifference to the manufacturer how much the cost of his goods is enhanced by defective currency, because he can obtain correspondingly high prices. The people

* It has been as low as 15 cents during the year 1871.

must have his wares and pay him a profit. It is only when he would send his goods abroad that he feels the effect of the false standard of value under which he has produced his commodities. He then finds that, his goods having cost him much more than they ought to have done, he cannot compete in foreign markets as he could before the war. In 1860 our export of cotton manufactures was about eleven millions,—now only one-third that amount. Thus, our export of cotton fabrics, which ought to be large, —at least as much as twenty-five millions, according to the rate of increase for several years before the war,—is now hardly worthy of notice. Although thus deprived of an outlet for their goods, and suffering many other disadvantages from unsound currency, manufacturers are able to achieve a good degree of prosperity compared with agriculturists. In fact, they gain by the low price of breadstuffs, because they are enabled to support their workmen at a lower rate. Protected by high tariff-duties from foreign competition, they have the entire command of the home market, while the farmer, depending upon the foreign demand for the sale of his surplus, must sell his whole crop at the gold value.

TRADE AND TRANSPORTATION.

The mercantile and transportation class, whose business is transferring and exchanging the values that others have created, are but partially affected by the present state of the circulating medium. They make all their transactions under the same standard of value, and thus secure their profits without diffi-

culty. The aggregate sales of merchants are larger in amount than formerly, because prices are so much higher; but, as an offset to this, their expenses are as much increased as their gross profits; and besides, their profits when realized are in the currency of the country, worth for the purchase of commodities, the building of houses, stores, or ships, but a little more than half what it was when the currency was sound.

In addition to this, the mercantile classes are constantly exposed to the danger of a great financial crisis, which may come at any time, and is certain to come sooner or later, unless suitable measures are seasonably taken for the gradual restoration of the currency to par with gold.*

* A part of this argument is taken from an article by the author published in Lippincott's Magazine for Nov., 1871.

CHAPTER XII.

FALLACIES REGARDING A MIXED CURRENCY.

Fallacy 1*st.* That by means of mixed-currency banks, the capital of a country is greatly increased.

Capital is the portion of wealth employed in reproduction. Money is one form of capital. To the banker or money-lender, it may be his entire capital; but, to the merchant, manufacturer, or agriculturist, it is capital only as the instrument by which he obtains those commodities which constitute his main capital, upon which he does his work, and from which he makes his profits.

Of the great mass of the world's capital, money is but a small fraction. Credit is no part at all. Money is that portion of capital which is employed in reproduction, for the special purpose of effecting easily that exchange of values which itself confers value, because done by labor. To the greater part of mankind, money is only the means by which capital is obtained from those who have it.

Now, were it not for mixed-currency banks, all the capital loaned in the form of money would be reliable. Mixed currency, for the time being, takes the place of actual money, and becomes an instrument by which capital is transferred. But its nature is, as we have seen, to issue in greater volume than necessary for the wants of commerce, and, by this, to disturb the business of the country, cause an unnatural rise of prices, an increase of imports, a

decrease of exports, and finally a call for real money, which causes the withdrawal of all the extra currency at the very moment when, owing to the increased indebtedness it has caused, it is more needed than at any other period. It will then be discovered that this excess was not capital, or actual value, but credit, in the guise of capital, which the mixed-currency banks had issued, and which they were compelled to withdraw when most wanted.

Fallacy 2*d.* That mixed currency is cheaper than a value currency, more economical, and therefore more desirable.

Specie costs much labor. Paper costs but little in comparison: therefore, as it answers the same purpose, and is more conveniently handled, it confers a benefit. This is a popular idea.

Money, we have said, is an instrument, nothing else; we do not eat, drink, or wear it. All tools, instruments, or appliances should be as cheap as possible, *provided, always*, they are safe and efficient.

A paper cap is cheaper than one of leather or cloth; but is it as durable and comfortable? If not, although in the first instance it costs less, it would not be desirable for use. The same principle applies to money.

If what we have already said of a mixed currency is true, it is wanting in those qualities which would make it cheaper than a value currency, because it does not discharge fully or perfectly a single function of money. It deranges trade, because it does not obey the laws of trade. It increases credit enormously, by its expansions, because it is itself credit, and impairs it by its contractions.

But the gain by this substitution of credit for value in the currency is insignificant, when compared with the great interests of trade. The average of paper *circulation* in the United States from 1850 to 1859 inclusive, ten years, was not more than $6.25 per capita. If from this we deduct the average specie per capita for the same time held by the banks, viz. $2.25, we shall have left $4.00, as the amount for each individual of credit circulation. On that amount, the saving, if any, is to be made. If we compute the interest at six per cent., we have twenty-four cents as the annual saving to each individual by the use of credit currency; a saving worth the attention of the statesman, if it could be properly and safely made, but paltry in comparison with the losses and disturbances incident to a mixed currency.

Some have supposed that a great saving is made by the use of paper money instead of coin. But it is not necessary to have a *mixed* currency in order to avoid abrasion of the coin. A mercantile currency, based wholly on specie, would equally avoid loss from this cause, and yet secure all the advantages of a value currency.

But, in fact, the abrasion of paper currency is far greater than that of gold; that is, it costs more to keep out one hundred dollars of currency than it does to keep out one hundred dollars in coin. Gold and silver circulate themselves; but it requires a formidable machinery to circulate paper promises,—a machinery far more costly than the slow wear of the precious metals. No banker would venture to say that a paper currency can be

maintained for one-twentieth of one per cent. per annum.*

This argument of economy in the use of credit money was presented by Dr. Adam Smith ninety years ago. Even then the danger was apparent, though the system had not been developed to its proper character and consequences. Had the writer witnessed the great convulsions from 1797 to 1866, he would have dismissed, as wholly an idle fancy, the scheme of substituting the "Dædalian wings" (say, rather, the Icarian wings) of credit for the "solid ground" of value. He says:

"The gold and silver money which circulates in any country may very properly be compared to a highway; which, while it circulates, and carries to market all the grass and corn of the country, produces itself not a single pile of either. The judicious operations of banking, by providing, if I may be allowed so violent a metaphor, a sort of wagon-way through the air, enable the country to convert, as it were, a great part of its highways into good pastures and cornfields, and thereby to increase very considerably the annual produce of its land and labor. The commerce and industry of the country, however, it must be acknowledged, though they may be somewhat augmented, cannot be altogether so secure, when they are thus, as it were, suspended upon the Dædalian wings of paper money, as when they travel about upon the solid ground of gold and silver. Over and above the accidents to which they are exposed from the unskilfulness of the conductors of this paper money, they are liable to several others, from which no prudence or skill of those conductors can guard them."

Fallacy 3d. That the use of mixed currency has been the cause of the great prosperity of the United States.

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* By a statement of the Controller of the Currency, Sept. 30, 1869, it appears that the actual working expenses of the national banks amount, irrespective of all taxes, to 3·6 per cent. per annum.

This is, doubtless, a very idle assumption, unworthy of discussion. Yet thousands are influenced by it. A *coincidence* is taken, by force, for a *cause*.

The United States have prospered greatly, and at the same time there has been a large consumption of intoxicating drinks. Surely this does not prove that the prosperity of the country was caused by the use of liquor. Has the country flourished by reason of, or in spite of, such use? Intoxicating liquors stimulate men to greater effort; therefore they increase production. Mixed currency stimulates exchanges, increases prices, promotes speculations; therefore it is favorable to production.

Such is the reasoning, and it is equally good in each case. In both, the misdirection of effort and the certain depression of energy are kept out of sight. Mixed currency never gave strength or wisdom or skill or economy to any human being, and therefore never can have increased the products of the country, or enlarged its wealth, in any manner whatever. Its unnatural excitements are followed by unnatural prostration. Men do not work more, but they trade more, speculate more, and squander more, during the flood-time of an expansion. More is expended for foreign luxuries; there is more extravagance and waste, which superficial observers take to be indications of prosperity. In the time of reckoning, trade is as much depressed as it was falsely stimulated.

Fallacy 4th. That there is not gold and silver enough in existence to form a currency adequate to the rapidly extending operations of commerce; and therefore resort must be had to paper substitutes.

Twenty years ago, this was regarded as an unanswerable argument in favor of credit currency. The recent discoveries of apparently inexhaustible mines, and the immense production already realized, have to a great extent silenced the senseless clamor once raised on this point. Yet the assertion is as true now as ever. Only about one-half of the whole amount of precious metals in possession of man, from the fifteenth to the middle of the nineteenth centuries, was required for coin; the balance remaining in plate and ornaments, mostly in Europe and the East.

The reason of such general error on this point is found in the totally inadequate ideas prevailing as to the amount of currency needed for trade. People are informed that the annual products of the United States, for example, are, say four thousand millions; and they fancy that four thousand millions of currency, or something near that sum, is necessary to transfer this immense production: whereas only a very small fraction of the amount is required.

Mr. Colwell, in his "Ways and Means of Payment," estimates that all the securities issued in the United States, including "promissory notes, bank-notes, bank credits, and other currency,—in short, all which intervene between buyer and seller,"—amount to one thousand million dollars every three months, or four thousand million dollars per year. Yet we know that all this may be wiped off with, at the most, not more than four hundred million dollars of currency, or about one-tenth of the aggregate indebtedness.

Now, that the people of the United States could

not command sufficient gold to furnish a currency equal to their wants is preposterous, since the yearly production of California, for the last twelve years, has amounted to fifty millions,—in all, say six hundred millions of gold; a sum about double our requirements for a *sound* currency.

Instead of using this, we find that the amount of specie in all the banks in 1848, the time of the discovery of the gold mines, was forty-six millions, and that on the first of January, 1860, the amount was eighty-three millions; showing that, of all the gold obtained from California, only thirty-seven millions, or about one-sixteenth, had found its way into the bank currency of the country. In the mean time, the total exports of the nation had increased from one hundred and fifty-four to three hundred and sixty millions, or more than double. Again, the amount of specie *per capita* in bank for ten years prior to the discoveries, say from 1839 to 1848 inclusive, was $2.07; while for the succeeding ten years, 1849 to 1858 inclusive, it was but $2.10,—showing an actual gain of but *three cents to each individual*, notwithstanding the accessions of gold to the amount of six hundred millions, or *twenty dollars per capita.*

In connection with the fallacy we are now considering, it may be proper to speak of the opinion, often expressed, that the amount of currency must of necessity be enlarged proportionally to the extension of trade and the increase of population.

The experience of Great Britain, the most commercial nation in the world, entirely contradicts this theory, for while its trade and population have trebled within the last fifty years, its bank currency,

its paper circulation, is no greater than in 1820, and yet its money market is as well supplied as ever.

The phenomenon is easily explained. The various substitutes now provided, and the great improvement made in the "mechanism of exchange," have so vastly increased the rapidity of circulation and the effectiveness of currency as to make any increase of its volume unnecessary.

This principle is as applicable to the United States as to Great Britain, but not perhaps to an equal extent on account of its large territory and more scattered population. The rapid extension of railroads and telegraphs will, however, in a great degree remove even this difference.

And here it may not be irrelevant to present the interesting fact that there is a remarkable uniformity in the amount of paper circulation in proportion to population in three of the principal commercial nations. In the United States, in 1860, when the currency was redeemable, it was $6.48 per capita;* in Great Britain, in 1868, it was $6.54; in France, $6.63.

This correspondence in the *amount* of paper issues per capita in the three most commercial countries in Christendom is at least a striking fact, whether it results from accidental circumstances, or the natural operation of the laws of trade.

Fallacy 5th. That mixed-currency banks are particularly favorable to those who have little capital, and must, of necessity, depend upon credit, since they increase the facilities for obtaining capital.

* The irredeemable paper circulation of 1871 is over $18 per capita.

Whatever impairs credit and increases the risk of loaning must be unfavorable to those who most need to borrow. Other things being equal, it must be easier to get credit in a community where only one in twenty fails than where one in five fails; the less the risk, the less the hesitation in giving credit. Now, does the credit money of a mixed currency diminish the risk of general credits? Far from it. Common-sense teaches, and statistics prove, that the hazards of credit must be just in proportion to the *credit money* of any country. Instead, therefore, of being favorable, it is adverse to all persons wanting the use of capital. The hazards of credit in the United States are at least four times as great as they would be under a value money currency.

A mixed currency, far from being advantageous to persons needing credit, has an entirely opposite influence, and is constantly tending to reduce the number of those who can obtain sufficient to participate in the profits of business.

Fallacy 6th. That, without a mixed currency, banks could not exist, and all the advantages now derived from them would be lost.

Such is the general impression among the masses of the people. Propose to them the expulsion of the credit element—that is, to forbid the issue of notes beyond the specie in hand, the reply comes at once that there would be no object in banking, and we should have no banks; but banking may be carried on to any degree, and in the most profitable manner, without the issue of a single bank-note. This is done in Great Britain, to a wonderful extent, by joint-stock and private banks. Only a very small

proportion of all the banks in the United Kingdom issue their own notes; yet they make dividends so large as to astonish us.

As an illustration of this species of banking, we mention the fact that while the Bank of England, with a capital of fifteen millions, has deposits, public and private, of but twenty millions on an average, the three principal banks of London, with an aggregate paid-up capital of only £2,320,000, have on deposit £46,158,105; and that while the Bank of England declares a dividend of about six or seven per cent., these banks make an average profit of about thirty per cent., and furnish the commercial and manufacturing interest a much larger amount of capital than the Bank of England itself. And yet they manufacture not a dollar of currency. We present the following statement of their condition:

	Paid-up capital.	Deposits.	Net profits for 6 mos	Percentage per ann.
London and Westminster	£1,000,000	£15,629,095	£147,816	29·56
Union	720,000	16,472,279	114,324	38·11
London Joint Stock . .	600,000	14,056,731	80,573	26·86
	£2,320,000	£46,158,005	£342,713	

We see by these facts that the issue of a paper circulation is no necessary part of the most extended and profitable banking. Foreign bankers pay interest upon deposits, and are never restricted by legal enactments. This is true banking.

Of all kinds of banks, with their branches, there are, in the United Kingdom, about five thousand, a small portion only of them being banks of issue. Yet, as a general rule, all make large dividends,—the largest dividends being by those banks which issue no notes whatever.

This fact gives sufficient proof, if any were needed, that, in order to make large profits, it is not necessary for a well-established, well-managed bank to manufacture currency.

Banks belong to civilization. A bank is an institution intrusted by one class of persons with money to loan another class. The existence of such institutions implies the existence of capital and confidence; and these indicate culture and social elevation. Banks are labor-saving machines, of vast power and utility. They exist of necessity.

No well-informed man can be opposed to banking institutions conducted in a proper manner. It would be as reasonable to object to railroads.

Fallacy 8th. That a mixed currency can be effectually regulated by law.

Many of the mischiefs arising from a mixed currency are so obvious that all persons desire their removal, and naturally resort to legal enactments for that purpose. The statute-books of every State in the American Union contain laws for the regulation of mixed-currency banks. Commissioners have been appointed in many States, and a Bureau of Currency established. Ingenuity has been taxed to devise regulations by which these evils may be removed or modified,—with what success? They have never succeeded.

There is but one defect in a mixed currency; and that is, it wants the element of value. There is no sufficient remedy, but to supply this, by providing that banks shall issue no promises of their own for which they have not in possession the actual values they promise. But this would be to change the

whole system, to make the currency *mercantile*, and to cut off all the profits arising from the issue of bank debt as currency. The only complete remedy, then, is restoration; that is, a return to the original design and purpose of banking.

Fallacy 8th. That it is for the interest of the public that the banks, in times of panic or stringency, should be enabled to "stave off" suspension.

On the contrary, this can be obviated only to the misfortune of the business community. A severe pressure for money, as in the United States in 1847, 1851, and 1854, is experienced, and yet the banks do not suspend. But how do they avoid it? By throwing the strain upon the mercantile and business community. This they can always do to a limited extent, and thus maintain their own credit; but it is done at an enormous amount of embarrassment and loss to all engaged in business affairs.

The banks may not only escape damage, but may even profit very much by a pressure, if it does not come to be a panic; for it greatly enhances the rate of interest. The rate of interest in the Bank of England, from 1848 to 1856, did not average three and a half per cent. In 1857, when there was a severe pressure, the bank was able to obtain ten per cent. It had a harvest of profit, and the same in 1866.

Practically, mixed-currency banks expand as often and as much as possible; and, when the reaction comes, hold on to specie payments and a high rate of interest, until the bankruptcy of their debtors begins to be so alarming as to endanger their own securities. They then suspend, allow their debtors to pay up in the notes they cannot redeem in specie,

and thus settle the indebtedness of themselves and the public. There is no plan or design to do this; but such is the natural result, and, on the whole, a highly satisfactory one *to the banking interest.*

Fallacy 9th. That, whatever the effect upon other classes, bank stockholders at least are made richer by an expansion of the currency.

That this is not generally true will appear on examination.

An expansion of the currency raises prices: that we take to be indisputable. If so, the stockholder may be made richer or poorer by the cause that increases his bank dividends.

For example: suppose he has an income from various sources of	$5000
And from bank stock	1000
Total income	$6000

In consequence of an increase of circulation by the banks, he gets an increase of $500, equal to fifty per cent. on his bank dividends, making his whole income $6500. But prices and commodities have advanced twenty-five per cent. in consequence of the inflation. What he would have bought before for $6000, now costs him $7500. The result, then, is, that the bank stockholder has gained $500 in his dividends, and lost $1500 in his purchases; so that he is actually $1000 poorer, reckoning the real satisfactions or commodities, etc., which he obtains from his income.

It is only when a man's income is derived almost wholly from bank dividends that he can gain, by the fact that they have been increased in consequence of currency expansion.

WHO GAINS BY FICTITIOUS CURRENCY?

But it may be asked, if stockholders do not gain by bank expansions, who does? There is an increase of dividends: who gets the advantage?

This inquiry brings us face to face with one of the prime mysteries of currency, and, indeed, of political economy. "*Who* gains by fictitious currency?" Before answering this, we will ask, WHAT is gained by a currency not consisting of actual value? We answer, *nothing but price.* Prices are changed by it. Values are not created: they remain the same. By the change in the standard or measure from a value to a mixed currency, prices no longer accurately determine value. Prices are increased. Those who hold commodities while prices are advancing, gain by such an advance. Debtors may discharge their obligations with less value. Speculators may make favorable operations. The value of every commodity has been interfered with; the integrity of every contract to pay value has been impaired.

Such is the "consummation" of mixed currency. "It is a grand system of insidious swindling." So said "Hardcastle" (who was no other than Mr. Page of the Bank of England) more than forty years ago; and what that shrewd observer then discovered is apparent now to all who enter into a full examination of the subject.*

* Richard Cobden repeated this remark of Mr. Page to the author at Manchester, more than twenty years since, with his emphatic approval.

CHAPTER XIII.

MERCANTILE CURRENCY.

We have thus far examined three different kinds of currency. 1st. Money, consisting of the precious metals: this we have found to be admirably adapted to the wants of trade, except that, for large exchanges, it is too cumbersome, requiring much labor and time in use. 2d. Inconvertible paper, or credit currency, which, we have seen, never has been, and in the nature of things never can be, kept at par with coin, and is therefore highly injurious when introduced into commerce. 3d. A mixed currency, or partly convertible paper, which, as it is constantly varying in quality and quantity, cannot be relied on as a medium of exchange or a standard of value.

We now come to the consideration of *a mercantile, or substitute* currency.

It is quite apparent that a currency is needed which shall combine all the advantages of the two kinds first mentioned, without the disadvantages which we have seen to be inseparable from the third. We want the reliability of coin and the convenience of paper. With these perfectly united, there is nothing more to desire. We have no occasion to increase the currency beyond its natural volume, because that would impair the standard of value. We wish only to have so much currency,

and of such a kind, as the laws of trade demand, and, if undisturbed, will always secure.

Is such a currency practicable?

In answering this question, we remark that it would not be an entire *novelty*, since experiments of this character have been made most successfully upon a large scale, and extending over several centuries.

The Bank of Genoa, established in the early part of the fourteenth century, received deposits and issued bills or notes of circulation extensively; but "these bills and deposits represented coins of full weight and value, and were payable on demand in such coins." They formed a currency adapted to the wants of that city when the great mart of trade for all Europe, and were continued in use more than five hundred years. The bank was abolished when Genoa was united to the French Empire.

The Bank of Amsterdam received deposits in coin and gave a receipt (*recipisse*) for the same. These receipts formed a circulation for large monetary transactions.

The Bank of Hamburg, established in 1619, has the same general character, and confers immense benefits on the trade of Amsterdam, issuing its obligations only to the extent of its specie.

We have referred to these individual banks, not to give a history of their operations, but to show that the essential principle of a substitute currency has been long recognized, and thoroughly tried in practice.

To keep gold and silver coin in bank, while they are performing all their functions outside, with per-

fect accuracy and vastly augmented force,—this is what a mercantile currency seeks to realize. It is beyond doubt that this can be more effectually done in the present, than in any preceding age, since confidence and intelligence are more general and controlling.

England affords the best illustration of the necessity for such a currency at the present day, when the commerce of the world is perhaps one hundred times greater than when Genoa was its chief mart. The monetary condition of England is peculiarly appropriate in this connection, because its present currency is probably the best in quality of all the mixed currencies, and one with which the public generally are well acquainted. Yet, notwithstanding this superiority, we find the currency, on which depend the trade and commerce of the British Empire, in a state of continual fluctuation, and a matter of unceasing solicitude: the bank reserve, by which its discounts must be governed, varying from ten millions in 1846, to one and a half millions in 1847; twelve and a half millions in 1849, to four millions in 1854; one and a half millions in 1857, to thirteen and a half millions in 1858; with corresponding variations in the rates of interest.

Why all this fluctuation and anxiety? Why this constant watching of the amount of *bullion* in bank? Why this nervous solicitude about the reserve?

There is only one reason; and that is, that the Bank of England has issued from ten to fifteen millions sterling of notes, for which it holds no specie! That is all the difficulty. It has disturbed the laws of value, by issuing that as money which had only

the promise of value; and, consequently, has expelled the actual value from the country where it was needed.

And what does the Bank of England gain by all this? Why, the interest upon the excess of its notes over the bullion in bank; that is, if its notes are twenty millions, and it holds eight millions of specie, then on twelve millions it obtains interest, which, at say four per cent., as an average, is equal to four hundred and eighty thousand pounds per annum. So, then, it is for this paltry consideration that the currency of Great Britain is kept in constant fluctuation, and the business community in continual anxiety. This gain is equivalent to about four pence per head for the population of the nation. Yet for this the public must, on an average, suffer to the amount of many millions per annum.

The people of the United States, having a much larger proportion of the credit element in their currency, suffer still more.

The remedy for all these evils is a very simple one, and perfectly feasible whenever government sees fit to make the needful enactments. Not only so, but, from the nature of the case, there need be no violent change. The experiment may be made as cautiously as the most conservative can desire.

If the principles we have previously laid down, and the practical results which follow, are such as we have stated, then no one nation need to hesitate in making this experiment for fear that other nations may not follow their example; for the community which has the soundest currency will, other things

equal, have the most profitable industry and the most advantageous commerce.

There need be no legal restriction whatever upon the issue of such a currency, and it matters not how voluminous it may be; since it will be composed in fact of value money, will obey the laws of value, and, of course, will regulate itself. There would then be no expansions or contractions, except from the legitimate operations of trade; and the currency of the nation would be perfectly sound. Notes may be safely issued, of any denominations, and to any amount; still it would be desirable that no small notes should be put out, because it is better that the people should have the coin, so far as practicable and convenient, in their own possession, rather than that it should be needlessly accumulated in banks, where it would be more exposed to danger in case of a popular outbreak, or a financial *coup d'état.*

That legitimate banking may be made sufficiently profitable under such a system, we have seen in the case of the joint-stock banks of England. All banks, like them, should be authorized to receive deposits, and allow such an interest upon them as they might choose to pay. If there were no issue of promises as currency, which in the nature of the case it was impossible to make good, there would be no danger in allowing them to borrow and loan money on any terms they pleased.

There would be no occasion to enact that such a currency as we propose should be received in payment of dues. It would take care of its own reputation. It would be good as gold, and easier in use; and it therefore would circulate itself. Of such a

currency it might be said, in the language of Mr. Burke, "It is of value in commerce, because in law it is of none."

It would only be necessary to secure a gradual substitution of the better circulation in place of the old.

If, in carrying such a measure into practical operation, it should appear that there were banks which could not make good dividends, such institutions would be discontinued of their own choice, as not actually required by the wants of the business community. Their capital would be paid back without any essential loss to the stockholders. Those who were concerned in their management would of course be obliged to seek other employments, more beneficial to the country, and perhaps equally so to themselves. The amount of disturbance so produced would not exceed that occasioned, many times, by the invention of a new description of machinery.

FREE BANKING.

Much has been said, at different times, of the desirableness of *free banking*. Of the propriety and rightfulness of allowing any person who chooses to carry on banking, as freely as farming or any other branch of business, there can be no doubt. But it is not, and can never be, expedient or right to authorize by law the universal manufacture of currency. While banking, as at present, means the issuing of inconvertible paper, the more it is guarded and restricted the better. But when such paper is forbidden, and only notes equivalent to so much coin

are issued, banking may be as free as brokerage. There is not the slightest reason why any banker, making loans, should engage in the manufacture of currency. It no more appertains to his vocation than to that of the merchant. On the other hand, there is the most manifest impropriety and danger to himself and the public in his doing so. His business leads him, of necessity, to incur great risks; and this being well known, as soon as failures become frequent, as they will when there is a great pressure for money, the banker will be suspected, and his depositors begin to withdraw their funds, at the very moment when he is least able to spare them. All this is inevitable; and therefore no one taking such risks, and exposed to such contingencies, should be allowed by law to issue his promises as money.

GOLD NOTES.

Fortunately, while it is thus improper that bankers or banking institutions should be intrusted with the important function of issuing notes, there is not the slightest necessity for their doing so. Government very properly certifies to the weight and fineness of the national *coin;* and it is equally incumbent upon the government to certify to the soundness of the *paper circulation*, which convenience requires instead of the coin itself. It should receive the gold of the people, and give its certificates therefor; and those certificates (of all the denominations required) would form a circulating medium, perfectly reliable, unfluctuating, and well adapted to all the purposes of trade.

To do this, government need assume no new function; for it already issues this very kind of certificates for deposits of specie. They are called "gold notes," and circulate as such. When the specie standard is restored, all the notes in circulation will be *gold notes*, government being the trustee for holding the coin. This would not give any new power to the government, or confer any additional political influence. Being custodian merely, with no patronage to bestow, no loans to make, no accommodations to grant, there could be no occasion to fear that the currency of the country would be swayed by partisan politics.

And this important change may be effected without any convulsion in the money market, or any interruption of the trade and industry of the nation, by the enactment of a law requiring a gradual withdrawal of the existing circulation. And the contraction required may be made an entirely *voluntary one* on the part of the people so far as the treasury notes (greenbacks) are concerned, by providing for the monthly issue of compound interest notes in their stead, convertible, after a given time, into treasury bonds, at the option of the holder.

The national banks, on their part, might be required to take in their circulation at a certain rate per annum, and allowed to receive *pro rata* their bonds now held as security by the government, thus supplying themselves with reliable capital with which to accommodate the business public. This being accomplished, all restrictions as to paying interest upon deposits, all requirement to hold specie for the redemption of notes, and all taxation imposed

for their franchise, or privilege of issuing paper money, might be removed, and the banks have the whole field of legitimate and profitable operations at their entire command. They would suffer no detriment, while the trade and industry of the nation would gain immensely.

TABLE VII.

Characteristics of the Different Currencies.

KIND.	COMPOSITION.	CIRCULATION.	STABILITY.	CONVENIENCY IN USE.	CONVERTIBILITY.	AS A STANDARD OF VALUE.
Specie	Precious metals	Universal	Perfectly reliable	Cumbersome in large amounts	Needs no conversion	Correct and invariable
Credit	Paper based on credit	Local and arbitrary	Liable to depreciation	Convenient	Inconvertible	False
Mixed	Paper based on coin and credit	Local and conventional	Constantly fluctuating	Convenient	Only partially convertible	Defective and variable
Mercantile	Gold notes based wholly on coin	Local and conventional	Perfectly reliable	Convenient	Fully convertible	Correct and invariable

CHAPTER XIV.

THE NATIONAL CURRENCY OF THE UNITED STATES.

Having given an extended analysis of mixed currency as it has heretofore existed in the United States, it seems proper that we should notice the important changes that have taken place in that currency.

In the month of February, 1863, Congress enacted a law establishing a national and uniform system to

supersede the State-bank system. We propose to inquire in what respect it differs from, and in what respect it is like, the latter.

DIFFERENCES.

It *differs* from the old system, in that,—

(1) Being created by national instead of State authority, it is entirely within the control of Congress, which, according to the last section of the National Bank Act, may at any time "alter, amend, or repeal it."

(2) It differs, in that all the notes issued are guaranteed as to their *ultimate redemption* by the government of the United States. This provision we presume to be without any precedent; for the government is not simply custodian, holding security for these notes, as formerly in New York and some other States, on the safety-fund principle, where stocks were deposited to secure the circulation, but it absolutely guarantees the final payment of all these notes in full.

Every banking association, on its organization, must deliver to the Treasurer of the United States the bonds of the United States bearing interest, and is then entitled to receive from the Controller of the Currency circulating notes of different denominations, in blank, equal in amount to ninety per cent. of the current market value of the bonds so transferred, but not exceeding the par value of such bonds. In case the notes issued by the banks are not paid by them according to promise, the Controller may sell the bonds left as security, and

redeem the notes, making up to the holders of the same any deficiency there may be in the securities. This, it will be seen, does not secure the immediate convertibility, but the *ultimate* redemption, of the circulation.

(3) It differs, again, in that these notes are legal tender in payment of "taxes, excises, public lands, and all other dues to the United States, except for duties," and also are legal tender by the United States in payment of all salaries and other demands owing by the United States, except interest upon the public debt; but they are not a legal tender as between other parties.

(4) Unlike the State-bank notes, those of the national banks, owing to the provision just mentioned, have a nearly uniform value in all parts of the United States, and are therefore generally acceptable.

(5) They differ also in this, that the national banks are compelled by law to keep on hand a certain proportion of "lawful money" to their circulation and deposits. In specified cities, this proportion is fixed at twenty-five per cent.; in all other places, at fifteen.

Under the State systems, there was no legal obligation on the banks to keep any specie whatever, except in a few cases, as in Louisiana and (recently) in Massachusetts, and one or two other States. But this provision in regard to the national banks is practically, to a great extent, only a nominal matter, because the law provides that "bank balances (due from one bank to another) shall be deemed to be lawful money;" and therefore, as these balances may be created fictitiously for the very purpose, the

clause obliging the banks to keep a certain proportion of "lawful money" with which to redeem their notes is nearly a nullity. However real these bank balances may be, they are not specie, but, as we have before shown, constitute the most perilous and explosive element of a mixed currency. This is one of the great defects of the law, and, until it is removed by the repeal of this provision, would alone make the system a dangerous and unreliable one. The object of requiring any specie, or lawful money, is, that the currency may be made more reliable; but, so far from giving strength, every banker knows that these balances are a cause of weakness in time of panic.

(6) Another important difference between the past and present currency is that in the former the security of both circulation and deposits was the same, while with the latter the circulation is guaranteed by the national government, but the deposits have no security except the stability of the bank in which they are made.

Lastly, the national differ from the old State banks in this, that the latter had almost their entire capital to loan to the business community, while the new banks have little or none at all, having loaned their capital at the outset to the government, by the purchase of its bonds.

RESEMBLANCES.

The new currency resembles that of the old State banks, in that it will be a *mixed currency*, with all its characteristics, when specie payments are restored.

(*a*) It will expand and contract from the same causes, and, so far as can be seen, with the same violence and to an equal extent, and consequently will be as fluctuating as the currency it is designed to supersede, except in so far as a larger proportion of specie shall be held for its redemption.

(*b*) It will be an equally delusive and false standard of value, having in itself but a small proportion of value.

(*c*) It will raise prices and cause speculation when in the process of expansion, and depress prices and produce bankruptcies when contracting.

(*d*) It will create an unnatural extension of credits at one time, and a corresponding contraction at another, producing great vibrations in the rate of interest.

(*e*) It will derange the natural current of trade from time to time, causing an increase of imports and a decrease of exports, and thus forcing an export of specie to meet an unnatural balance.

(*f*) It will counteract the influence of both natural and artificial protection, and retard the normal growth of home manufactures.

Lastly, it will create panics, and cause frequent *suspensions* of all the banks in the country.

It may be thought that the fact that the government guarantees the national-bank notes will prevent a run upon the banks; but that will be found an entire mistake. Panics are created because money is wanted to pay notes and discharge immediate obligations, not because the people fear that the banks are insolvent.

CHARACTER AND CONDITION OF THE NATIONAL BANK CURRENCY.

The original, or net capital, of all the national banks, on the 8th of October, 1870, as appears by the last annual Report of the Controller, was, in round numbers	$430,000,000
Surplus fund	94,000,000
Undivided profits	38,000,000
Gross capital	$562,000,000
The loans and discounts, the United States bonds, and other stocks and mortgages held by the banks, amounted to	$1,118,000,000
Three per cents held by them	45,000,000
Total amount drawing interest	$1,163,000,000

or more than twice the amount of their gross capital. In other words, the banks had loaned their *credit* in the shape of circulating notes and what they owe *on account* (what are called "*deposits*"), to the amount of $601,000,000.

From this statement we perceive why it is that these banks are enabled to make larger dividends, after paying all expenses and taxes, than were ever made under the State-bank system; and why they can, besides, accumulate so much "surplus fund," and have so great an amount of "undivided profits" (the two together amounting to over $132,000,000) still remaining.

The position of the banks in relation to the immediate demands that may be made upon them, and their immediate resources to meet those demands, is seen in the following statement:

The banks owed for circulation and deposits		$809,000,000
They had of immediate means of payment:		
Specie	$18,000,000	
Legal tenders	79,000,000	
		97,000,000
Excess		$712,000,000

that is, they had on hand about twelve cents on the dollar of what they owed on demand; and of this last, but $18,000,000, or about two per cent., was specie, or that which actually *pays a debt.*

From these facts we see what a stupendous fabric of *credit* is built upon a small sum of actual *cash.* But the character and condition of the national currency can be best determined by examining the position the banks of New York occupy in relation to the general system; that city being the great monetary centre. As the ability of the New York banks to stand any pressure that may be put upon them, so is the strength and security of the entire system. Here is the laboring point.

By referring to the report before mentioned we find the banks of New York City had—

Loans and discounts		$168,000,000
United States bonds		48,000,000
Other stocks and mortgages		5,000,000
Total		$221,000,000
They also have of three per cent. certificates		28,000,000
Total on which they draw interest		$249,000,000
Their net capital is	$73,000,000	
Their suplus fund	19,000,000	
Their undivided profits	10,000,000	
Total gross capital		102,000,000
Excess loaned over whole capital		$147,000,000

Thus we find that these banks derive an income from an amount nearly twice and a half as large as the capital they actually possess. This is done, as in the case of the national banks generally, by a loan of their credit. When a bank has loaned all its capital, it can have nothing else to loan except its credit.

The actual condition of the city banks, at the time mentioned, was as follows:

They owed on demand:	
For circulation (notes payable)	$33,000,000
For deposits (accounts payable)	167,000,000
Total	$200,000,000
They had of immediate resources:	
Specie	13,000,000
Legal tenders	18,000,000
	$31,000,000

equivalent to about fifteen cents on the dollar, of which six and a half cents was in specie, though of the last it is uncertain how much actually belonged to the banks, as it is said that the Canadian banks had loaned largely to the New York banks, payable in specie.

In addition to the above, these city banks owe to other national banks		$56,000,000
To State banks and branches		16,000,000
		$72,000,000
They have due from national banks	$13,000,000	
From State banks and branches	2,000,000	
		15,000,000
Leaving a balance of		$57,000,000

due to the country banks which deposited their

funds with them for the redemption of their own notes.

This item of 57 millions, in case of a run upon the banks for whatever cause, is, as we have insisted, the most perilous because the most explosive element in the entire system. As certain as the country banks are called upon for payment, so certainly they must draw upon the New York banks. But, in that case, what have the latter wherewith to respond to these calls? Their whole reserve is, as we have seen, but 31 millions to cover their other immediate engagements to the extent of 200 millions; how can they then be prepared for any considerable demand from these creditor banks? How they did respond in 1857 by immediate suspension we have already shown.

But it may be said that these banks held 28 millions of three per cent. certificates that might be readily converted into lawful tenders, and thus made available to meet this immediate obligation. That this is not exactly so, we see by looking at page 24 of the Report, where we find the New York banks actually held but 17 millions of these three per cents. This deficiency is accounted for by the fact that the Secretary of the Treasury kindly permitted a part of these three per cents to be "stamped" and used as clearing house certificates. They were thus, to that extent, virtually converted into currency, and used instead of greenbacks in paying bank balances. Besides, the New York banks at this time owed the country banks a *balance* of 57 millions.

CLEARING HOUSE CERTIFICATES.

This brings us to the consideration of a very important part of the machinery of banking; viz., *Clearing House Certificates.* These are created each day by the checks drawn upon the different banks, which are all brought to the clearing house to be adjusted. In the last return these "exchanges" amounted, the 8th of October, 1870, in New York City, to the enormous sum of 62 millions.

Were all these checks drawn in good faith upon funds actually in bank it would make no difference how large the amount; but if drawn without funds, as it is believed a large part are, and certified by cashiers to be "good," when it is well known they are not, it does make a great and dangerous difference. A law of Congress exists against certifying checks when there are no funds as a basis for them; but "operators" care little for laws which they have ingenuity enough to evade.

Such are the most important facts in regard to the banks of the City of New York *as a whole*, upon which, as we have said, the entire superstructure of the National Banking System rests. But there are still others worthy of consideration if we could have a complete view of the case. Individual banks loan far more than the general average. For example, one of the city banks, with a gross capital of $590,000, has loaned to individuals and the government, including $300,000 in three per cent. certificates, $2,241,000, or nearly four dollars to one of its capital. Its legal tenders were $144,000, its specie $13,000.

Another bank presents the following:

Loans		$8,424,909
United States Bonds		536,000
Other stocks and mortgages		333,000
Three per cent. certificates		1,850,000
Total drawing interest		$11,143,909
Its capital is	$1,500,000	
Surplus fund	298,633	
Undivided profits	655,636	
		2,454,269
Excess		$8,689,640

This last sum represents the extent to which this bank loans its *credit*, and accounts for its heavy surplus and large amount of undivided profits, in addition to the large semi-annual dividends it has made. Its indebtedness to individual depositors was $4,024,843, and to the country banks $5,678,673.

We add the following statement, showing very nearly the condition of the entire currency of the country in 1860 and 1870:

In 1860, circulation and deposits	$460,000,000
Fractional circulation	30,000,000
Total currency	$490,000,000
Bank circulation and deposits in 1870	809,000,000
Greenbacks, treasury notes	356,000,000
Gold notes	40,000,000
Three per cent. certificates, about	40,000,000
Fractional, about	40,000,000
Total bank and government currency	$1,285,000,000

If a population of 31,500,000 in 1860 required 490 millions of currency, how much would a population of 38,500,000 require in 1870? Answer, $598,888,888, say 600 millions, instead of which we have 1285 millions, or a redundancy of 685 millions.

We say *redundancy*, because no good reason can be given why more currency in proportion to population should be required now than ten years ago; indeed, the increase of rapid intercommunication, and the improved methods of using and transmitting funds, make a less amount now as effective as a larger one could have been before the late war.

It has been said that "this excess will soon be absorbed by the growing wants of trade." That the country might "grow to it" ultimately, if it continued to advance in wealth, is certain; but the period is far distant. In 1835, the whole *circulation* was 103 millions; in 1860, it was, as we have seen, 207 millions, having increased at the rate of 4·36 per cent. per annum during the intervening 25 years. Should the demand continue to increase in the same ratio, it would require the lapse of 40 years from 1860, or until the year 1900, to bring the wants of the country up to the present supply. In the mean time, the currency would remain not only an inconvertible one, but, for all practical purposes, irredeemable, even in greenbacks; because, although strong efforts have been made by the Controller to secure a system of redemption, opposing influences have hitherto been sufficiently powerful to prevent it; the banks issue their notes without any fear of being called upon to redeem them; and, besides, additional issues have already been authorized to the amount of 54 millions.

Facts of this kind to almost any extent might be presented; but the foregoing are believed to be sufficient to show the character of the national bank currency, and what may be expected from it.

The only complacency we can feel in the present system, as compared with the past, is, that it is more susceptible of reform, and of being restricted, by national legislation, to legitimate banking.

CHAPTER XV.

EVIDENCES OF DEBT.

We have already spoken of two different modes of effecting exchanges; viz., (1) barter, and (2) a universal equivalent, money or currency. We now notice a third mode of doing this; viz., by EVIDENCES OF DEBT.

These are mainly of three kinds:

I. Book accounts. A sells B one hundred barrels of flour, and charges him five hundred dollars in account, to be paid, by verbal agreement, in four months.

This is a very extensive mode of effecting exchanges. Very large transactions are made in this manner. Retail trade, especially, is almost wholly carried on in this way. These accounts are often, particularly in country trade, paid in commodities. The farmer makes his purchases of the merchant, from time to time, and sells him his produce when ready for market. Both are entered in account, and a final balance is ascertained, and adjusted by money or other equivalent.

(*a*) Book accounts are, in some respects, an un-

desirable form of transfer, because they are *ex parte*, and may be disputed. The purchaser may deny that he bought such a quantity, or at such a price. An account, if disputed, is always a matter to be proved; and, although the oath of the seller is generally deemed conclusive evidence, there is always opportunity for litigation.

(*b*) Another objection to book accounts is, that they are not negotiable. C cannot readily purchase B's account against A; but, if B had A's note, *that* could be easily negotiated or transferred. Accounts cannot, of course, be made available at banks, like notes, or left as security for money borrowed. The capital is locked up for the time being.

II. The next mode of credit is that of notes. These are made payable for a given sum, and at a given date. They are generally payable to the order of the payee, and, when negotiated, are indorsed by the latter. This transfers the ownership to a third person; but the indorser is held to pay the note, if the promisor fails to do so.

III. A third form is by bills of exchange, or orders from A to B to pay C a given sum at a fixed time. These differ from notes, in that they involve three parties,—the drawer, the acceptor, and the payee. They have a form usually somewhat like the following:

$1000. NEW YORK, Jan. 1, 1866.

Four months from date, pay to the order of J. Brentwood & Co. one thousand dollars, value received, and place to account.

(Signed) HENDERSON, WILLIAMS & Co.

To Messrs. BENNET BROTHERS & Co., Boston.

Here are three parties,—the drawer, the acceptor, and the indorser or payee.

This is first called a *draft.* When presented to the person on whom it is drawn, and by him accepted (which is done by writing the word "accepted" on the face, and signing the name), it is an *acceptance.* When indorsed by the person in whose favor it is drawn, it becomes a complete bill of exchange.

This species of transaction will arise mainly between persons residing in different places, and in this manner: A, in Boston, orders of B, in New Orleans, one thousand bales of cotton, which B sends, with a bill of the same, and then draws on A for the amount.

The commerce of the world is carried on principally by this agency. The transportation of money is thus dispensed with, except to settle the final balance of trade.

BILLS OF EXCHANGE.

Bills of exchange may be divided into two kinds, —domestic and foreign.

Domestic bills are those drawn and payable within the same country, as between different cities and different States. The manner in which these bills save the use of money, in domestic trade, is illustrated as follows:

A, in Boston, sells to B, in New York, goods to amount of one thousand dollars.

C, in New York, sells to D, in Boston, leather to amount of one thousand dollars.

Instead of sending the money, B, in New York, goes to C, in New York, and gets his draft on D, and remits it to A, in Boston, who receives the money of D; and the transactions are all closed without a dollar in money having been transferred from one city to another.

This is the course of all direct trade between any two places. Not, it must be understood, that, in the case supposed, B actually goes to C; but the merchants in Boston are owing millions to merchants in New York, while persons of the latter place are owing, it may be, an equal amount in Boston.

Bills are drawn on Boston for all due to New York, and on New York for all due to Boston. These bills are, when completed, if not before, generally passed into the banks, which pay out the money for them, deducting the interest (and exchange, if there is any). Then, if a merchant in either city wishes to remit, he goes directly to the bank, which will draw on some bank in New York or Boston, as the case may be, for such sum as he may want. The banks negotiate or collect the whole, and sell or dispose of their own checks or drafts for the amount.

This is a labor-saving arrangement of immense importance, greatly reducing the otherwise inevitable demand for a large amount of money to be kept *in transitu* between the different marts of trade.

INDIRECT EXCHANGE.

But all exchange is not direct between two places.

A, for example, in St. Louis, ships one hundred thousand dollars' worth of lead to New York. He

wishes to pay sundry persons in Boston, Providence, Lowell, and Lynn. He draws on his correspondent in New York for all these, in favor of the persons to whom he is indebted; and the drafts are negotiated by the receivers, through bank in the several cities, and finally all sent to New York for collection. All domestic trade thus becomes a great web of exchanges, which adjust themselves by means of these bills; and thus, to their entire aggregate amount, obviate the necessity of transmitting money.

FOREIGN EXCHANGE.

This consists of orders; that is, bills of exchange, drawn upon each other by the merchants and bankers of different countries. They differ little in form from domestic bills, but are usually drawn in sets of three; called, respectively, the first, second, and third of exchange, in something like the following form:

£1000. BOSTON, June 28, 1859.

At sixty days' sight of this first of exchange (second and third unpaid), pay to the order of A. Brown & Co. one thousand pounds sterling, value received, which place to account.

BRYDONE BROTHERS & Co.

GEORGE PEABODY & Co.,
London.

The party to whom the bill is payable takes these, and forwards the first to London, where it is accepted and paid. But an accident might occur by which the bill would be destroyed or lost while on its way to London; and, in that case, the owner would for-

ward the *second*, which would be paid. The *third* bill is also held, for the same precautionary reasons.

These bills arise in a great variety of ways. Persons wishing to purchase merchandise or other articles abroad go directly to bankers in New York, Boston, etc., and buy a bill of the required amount. So with persons wishing to travel abroad. But the principal amount, of course, is drawn in payment for importations of foreign merchandise. In general, the trade between England and this country is carried on by bills drawn on this side the water, upon cotton and other produce shipped abroad, mostly to Liverpool.

To illustrate the ramifications of this kind of intercourse, we will suppose that A, in Boston, buys merchandise of B, in Liverpool; C, in Boston, sells goods to D, in New Orleans; E, in Boston, buys cotton of F, in New Orleans, and ships the same to G, in Liverpool. Each transaction, we will suppose, amounts to five thousand dollars.

How are all these settled without the transfer of money? A gets the draft of E upon G, and sends it to B, in Liverpool; E gets the draft of C upon D, and remits it to F, at New Orleans, who receives the amount of D.*

Thus four debts of five thousand dollars, in all twenty thousand dollars, have been paid, and no money has been transferred from one place to another. A great saving of time, expense, and interest is thus effected.

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* These transactions go through banking houses, as in the case of domestic exchanges.

In 1857, the United States imported	$362,000,000
And exported cotton, breadstuffs, etc , $291,000,000; gold, $69,000,000	360,000,000
Leaving a nominal balance of	$2,000,000

Another thing in regard to exchange may be noticed; viz., England received that year of (the United States) fifty-four millions *more* than we bought of her. The same year we bought of

Brazil more than sold to her	$16,000,000
China	4,000,000
Spain, Cuba, etc.	29,000,000
France	8,000,000
	$57,000,000

These balances were mainly adjusted by drafts on England, by which our balances against England were discharged.

THE NATURAL RATE OF EXCHANGE.

By the rate of exchange is meant merely the price or cost of transporting money from one point to another; say, from Cincinnati to New York. If the time, freight, insurance, and other charges are equal to one per cent., then that is the natural rate of exchange. We have shown that only a small amount of coin, in the course of trade, is likely to be transported from one place to another. As there is a mutual trade, as Cincinnati buys of New York and New York of Cincinnati, it is only necessary to buy bills of exchange between these places. But on these bills there will be a premium or discount, as

the case may be. If New York has purchased more largely in the mutual trade, there will be an excess of demand in that city for bills on Cincinnati. Reverse the supposition, and there will be an excess of demand in Cincinnati for bills on New York. The consequence, in either case, will be a rate of exchange equal to the transportation of specie, as above indicated. The rate of exchange will fluctuate from time to time (other things equal) precisely according to the transactions between the two cities. It becomes, then, in point of fact, the *barometer* of trade; indicating, with perfect accuracy, the state of trade between any two points, at home or abroad. With a sound currency, the rate of exchange may ever be relied upon, and is always watched with great interest by every intelligent merchant and banker.

If this be so, we see that perfect freedom of exchange is of great importance, and that no extraneous influence should be brought to disturb this barometer, to which all ought to look with entire confidence.

THE RATE OF BRITISH EXCHANGE.

It is well known that the ordinary rate of exchange between this country and England is from nine to ten and a half per cent. against the United States; but the explanation of this is not generally understood. The transportation of specie between the two countries, all charges and time included, costs only about one and one-quarter per cent. Why, then, this difference?

When the American government was first formed, the old Spanish milled dollar was in use; and $4.44 were equal to the British gold coin called a sovereign, or pound sterling. And Congress enacted that $4.44 should be the rate at which the pound sterling must be computed at our custom-houses.

Since that time, important changes have taken place; the relative value of gold and silver have changed. The latter has advanced, or the former declined. The American dollar, too, has been altered, so that it has a less quantity of silver; and our gold coins, also, proportionately. It therefore now takes $4.86.6, in American coin, to be equal to a pound sterling. Thus the—

Actual value of the pound sterling is	$4.86.6
Exchange valuation	4.44.4
Difference	$0.42.2

which, it will be seen, is equal to very nearly nine and one-half per cent.; so that, when exchange is quoted at nine and one-half per cent., it is really at par.

Now, if this is the actual par value of the two currencies, it will happen that, whenever the market rate of exchange rises so far above nine and one-half per cent. as to be sufficient to pay the expenses of sending specie and a trifle *more*, then the specie will go forward.

What these expenses are will be seen by a statement of an actual transaction between Boston and London, February, 1865.

Gold purchased		$50,000
Insurance, one-half per cent.	$250.00	
Freight to Liverpool, three-eighths per cent.	187.50	
Carriage, Liverpool to London	5.00	
Selling, commission, one-eighth per cent	62.50	
Fourteen days' time lost, at six per cent.	83.33	
	$588.33	

These expenses are equal to about one and one-sixth per cent.

There is always some risk that the specie sent forward may not hold out full weight; that is, that, owing to abrasion in use, it might fall short a trifle: so that, probably, instead of one and one-sixth, the exporter of gold might as well have bought a bill of exchange, at one and one-quarter per cent. above $9\frac{1}{2}$, the actual par.

Then, if the difference in the par value of the two currencies is equal to	9·5
And the expenses of remitting gold equal to	1·25
Real par value of exchange	10·75

it will follow that gold will not ordinarily be exported until the market rate of exchange is about ten and one-half per cent.

ARE BILLS OF EXCHANGE CURRENCY?

It has often been maintained that bills of exchange are currency as truly as bank-notes. Let us inquire.

1st. The definition we gave of currency, viz., that instrumentality by which a general exchange of values is effected and payments are made, does not

embrace bills of exchange, which have themselves to be discharged with currency. The fact that, when found in equal amount on opposite sides, they may be used to cancel each other, makes them no more currency than is the credit side of a book account, which balances the debit. Bills of exchange dispense with the necessity of transporting currency in a certain number of commercial transactions: they are not, therefore, themselves currency. They allow debts between different States or nations to be discharged in the *local* currencies; but each bill is itself discharged in full by the use of currency, no less.

2d. Currency, if it be equal to money, can be at once exchanged for specie at the place where issued; but cash cannot be demanded for bills of exchange, as they are generally on time. They are, in fact, bought and sold for money, like the merchandise on which they are drawn.

3d. If a bill of exchange be dishonored, that is, not paid according to promise, the currency of the country is not thereby diminished. Is it so with currency? On the contrary, if a bank fails, so much currency as it has in circulation is at once abstracted from the community.

But how is it with bills of exchange and notes?

Suppose the indebtedness of a country were one hundred millions, and its currency ten millions: then, if fifty millions of the bills of exchange and notes of hand fail to be paid, there still remain the ten millions of currency with which to pay the balance; and currency is twice as plentiful, relatively to indebtedness, as before.

Suppose, on the other hand, that one-half the currency fails, while the whole amount of bills of exchange, etc. remain to be paid; or, to go further, suppose the entire currency to fail: then how can the private bills be paid at all?

So far from being currency, then, they are the very opposite in their nature, and can be discharged only by the use of currency.

BOOK IV.

DISTRIBUTION.

CHAPTER I.

DIVISIONS OF THE SUBJECT.

DISTRIBUTION is the apportionment of wealth among the parties producing it. Like EXCHANGE it arises from the division of labor.

We have seen by whom all wealth is produced, have examined the instrumentalities employed in its transfer from one individual or people to another, and have contemplated the nature and extent of that great system of trade by which the products of the world are made to minister to its wants.

We have observed that capital and labor are united in production,—one as the labor of the past, the other as the labor of the present; and that the joint product is divided between them. We now come to consider the laws by which an equal and just distribution of the wealth produced shall be secured among the parties. In doing this, we are obliged to discriminate between the different kinds of labor employed and the various forms in which capital enters into production.

Labor, in the distribution of wealth, falls into three general classes:

1st. Physical or muscular effort.

2d. Mental effort or enterprise, applied to the union of capital and labor.

3d. Subsidiary labor, or professional services, auxiliary to direct efforts in production.

The reward of the first is called wages; that of the second, profits; of the third, salaries, fees, etc., —but another name for wages.

In these three general forms, labor receives its reward. It is, however, to be observed that, though the distinction is clear between the wages of direct labor and the compensation paid for subsidiary labor, —like professional services,—yet the laws which govern are so similar as to render separate examination unnecessary. Both are controlled by the proportion of supply and demand.

Capital is *loaned* in two general forms:

1st. When invested with a permanent character and having a fixed place,—as houses, fields, etc.,— its compensation is called "rent."

2d. When in a shape, however solid and tangible, which is not intended to be retained, but may be altered to suit the business, or removed for convenience of location,—*i.e.* where not the identical product, but only an equivalent, is to be returned,— its compensation is called "interest."

Production, thus far, has been charged with wages (and under this term we include all the rewards of auxiliary labor, salaries, fees, etc.), profits, interest, and rent. Between these parties the product is to be divided. This division is made by natural laws, which, if not interfered with by legal enactments or social customs, will secure to each its rightful share.

But, while this is true, another party enters the field, and makes a peremptory claim to a portion of the wealth which the joint efforts of these has produced. That party is *government*, demanding a revenue for its maintenance, to which all must and should contribute. This is done in the general form of taxation.

Distribution is now complete,—wages, profits, interest, rent, and taxation. These we shall examine in their order.

CHAPTER II.

WAGES.

Since labor and capital join together in production, each may rightfully claim, and in the nature of things must receive, a share of whatever is produced.

The share which labor receives is called "wages;" and by this general term is meant that compensation which the employer pays to the employed for his personal services. The law of value is the law of wages. Wages confer value, and are measured by it. They depend essentially on the conditions of cost, supply, and demand. Competition comes in to influence their rate, as it does the price of all commodities.

Wages vary greatly in different countries, and in different parts of the same country; they vary, too,

in all the employments and occupations of society. These differences, however, are neither accidental nor arbitrary, but depend on certain laws which it is our purpose to point out.

The joint instrumentality of labor and capital being necessary to the production of wealth, it follows that the interests of the two parties are closely connected; that capital is as dependent on labor as labor is upon capital.

If this is so, the probabilities of an equitable division will depend on the freedom with which both parties are able to act, and the equality on which they stand when the contract or copartnership is formed.

Whatever, in social arrangements or civil institutions, destroys the natural freedom and equality of the parties, gives one an advantage over the other; and the party having the advantage will profit by it.

Wherever, by class legislation, capital is allowed to tyrannize over its copartner, or concentrate itself in vast aggregations, and thus increase its natural power over labor, which cannot be thus brought into efficient and permanent combination, the latter will be compelled, in one form or another, to accept less than its just reward.

But, however unjust or arbitrary laws or institutions may be, it is evident there are certain limits beyond which the wages of labor cannot be reduced.

The cost of labor is identical with the cost of maintaining the laborer in such circumstances that he can not only support himself, but rear a family

of children sufficiently numerous at least to keep the supply of laborers good.

Hence he must receive what has been properly denominated *necessary wages;* that is, to use in part the definition of Adam Smith, "such wages as will enable him not only to obtain the commodities absolutely necessary to the support of life, but whatever else the customs of society render it indecent for persons in his rank in life to be without."

There being, then, no uniform and established standard of wages, they vary according to the expenses of subsistence in different countries, and the condition in which the laboring classes are willing to live.

The cost of labor, or the current rate of wages that can permanently exist, depends on the necessary expenses of living; and these expenses, in turn, depend upon the condition of the laboring classes. Hence, other things equal, the more educated and morally and intellectually elevated any community of laborers may be, the higher will be their standard of wages.

Wages are not high in proportion to the wealth of a community, but rather to the disposition that exists among those possessing wealth to pay it out for labor; and this disposition will depend much upon the security and profitableness with which capital can be employed in production, and the enterprise and aspirations of the people.

We make the following divisions of our subject:

NOMINAL AND REAL WAGES.

There is often a considerable difference between the nominal and real wages, or between the wages of the employé when received in money or when realized in such commodities as his wants require. As this is a question of fact, we refer to pages 191, 192, of this work, as shown in Table V. In that table we find the prices of ten commodities, which the laborer would be likely to use in his ordinary consumption, such as sugar, coffee, molasses, pork, cheese, rice, salt, etc.

By taking the wages of common laborers at certain periods, and the prices at corresponding periods, we ascertain the desired results. We have added the year 1864 from the best unofficial sources at hand:

	1836.	1840.	1843.	1864.
Wages	$1.25	$1.00	$1.00	$1.75
Commodities	29.46	20.73	14 82	46.96
Labor required . . .	23½ days	20¾ days	14⅘ days	26⅔ days

Nominal wages fell from 1836 to 1840 by one-fifth, or twenty per cent.; yet the real wages (as shown by the less number of days required to procure the same commodities) were higher in 1840 than 1836 by more than thirteen per cent. In 1843, when the nominal wages were but one dollar, real wages were about sixty per cent. better than in 1836, when the nominal wages were twenty-five per cent. higher. In 1864, when nominal wages were at one dollar and seventy-five cents, real wages were but little more than half what they were in 1843 at one dollar.

CHAPTER III.

PROPORTIONATE RISE AND FALL OF WAGES.

Although wages rise and fall with the general rise and fall of commodities, they do not in equal proportion. The fact is one of common observation: but the reason of this difference we do not recollect to have seen stated by any writer. For nearly all products there is both an actual and speculative, or a present and prospective, demand: for labor there is only an actual, present demand. When business begins to be particularly prosperous, there is a general demand for all kinds of merchandise, and prices gradually begin to improve. This at once occasions a speculative demand; for to buy will be to realize an advance: the larger the purchases, the greater the amount of profit. Every operation pays. The rise continues until every article bought and sold as merchandise goes up to the highest point.

But no one speculates in wages. No one can, if he would, buy a hundred thousand dollars' worth of labor, and hold it for an advance, as he can of flour, sugar, or tea. Of course, labor has no advantage from this kind of demand, but must rely entirely on that which is immediate and actual. Therefore it is that a general rise of prices, so far as occasioned by speculation, must always operate against the laborer, or the person employed on salary or wages.

But wages not only never rise so much as commodities, but do not rise so soon. The reason is, that the rise of commodities is greatly accelerated by speculation; while labor, as before stated, is not affected by that kind of demand. Hence it does not begin to rise until speculation has engendered a spirit of extravagance and increased consumption; then wages make an advance about half as great, on an average, as that of merchandise in general.

And, again, wages fall *sooner* than merchandise, because the latter may be held for high prices, if need be. The fall of merchandise is broken by the disposition and ability of the owner to hold on, and, as far as possible, prevent loss; but the laborer cannot do this,—he must sell his commodity at once for the most it will bring.

It is for those obvious reasons that wages, in times of depression, must fall, not only sooner, but lower, than property in general.

A real rise or fall in wages is a matter difficult to ascertain with certainty. Fluctuations, since the introduction of mixed currency, have been frequent and violent, not in the rate of wages only, but of those commodities upon which the laborer subsists, and in which his real wages must be estimated. To determine whether actual value wages have advanced or not since the commencement of the present century, for example, we must have the nominal rates, say in 1810, also in 1860. We must then take the prices of commodities at the two periods; and, by comparison, we may arrive at a general conclusion. We should undoubtedly be satisfied that there has been a decided increase in

the average value of wages. In our investigation, we should find that some articles were higher and some lower in price in 1860 than fifty years before. For example, while one dollar per day for labor was probably as high wages in 1810 as one dollar and a half in 1860, corn was worth the same at each end of the half-century; but cotton cloth, which was worth forty cents a yard in 1810, could be bought in 1860 for ten cents. In all manufactured articles, the difference is against the earlier labor; so that it is true the laborer of to-day enjoys many comforts which his predecessors could not obtain. The *wants* of the laborer have immensely increased. It would be impossible to give an inventory of them; but, could we compare the consumption of laborers in 1810 with their consumption in 1860, we should find the advance surprising. The amount they expend for pleasure-travel, for example, is now very large, while fifty years ago it was hardly appreciable. So of the luxury of newspapers, magazines, etc. Some part of the expenditures of the poorer classes are for articles (like photographs) which were absolutely unknown a generation since.

Workmen may be less satisfied with their compensation now than fifty years ago; but it is really far greater. We do not say they have no cause for complaint, yet they are vastly better off than those who went before them. Wages, when realized in commodities, have increased. The general product has been enlarged by the introduction of labor-saving machinery, and therefore their absolute share is greater. Whether their relative share, as com-

pared with that of the capitalist or employer, is greater, we shall find place elsewhere to discuss.*

The laborer suffers nothing, but gains much, in the progress of civilization, if he is not despoiled by an unsound currency. That is his greatest oppressor, because his real wages—what he obtains in commodities for his labor—is determined to a considerable extent by the character of the circulating medium of the country. If the value of that, or its purchasing power, is less than it professes to be, he cannot fail to be injured by it.

UNHEALTHY TRADES.

Those occupations which, although not immediately dangerous, are nevertheless unhealthy and abridge human life, ought to command more than ordinary wages.

If a man is liable to be made sick, and consequently exposed to loss of time and expense for medical attendance, he should be compensated for that liability. If he shortens life in a particular employment, that should be a matter of consideration in determining the rate of wages.

It is not for us to inquire here whether a man may rightfully engage in that which he knows will abridge life; but that multitudes do so is beyond a

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* The very low rate of "corn wages" received by the English laborer in times past may be seen from the statement of Mr. Malthus (Pol. Econ., p 228, Lond. ed. 1836), that wages had advanced, and wheat fallen, so much "that, from 1720 to 1750, a whole peck of wheat could be had for a day's labor."

doubt. Regarded in a merely economical point of view, it is obvious that, on this account, some laborers should receive much higher compensation than they do at present.

Agriculture is evidently the normal employment of man, that in which he lives longest and enjoys the greatest health. Every other calling is unwholesome to the exact extent in which it departs in its condition from the agricultural; and the rate of wages should be adjusted to a scale constructed on this principle.

THE EDUCATION OF THE LABORER.

Other things equal, the man who has received merely a common-school education will obtain higher wages in any employment than one who is entirely illiterate. He has some mental discipline, will therefore be more intelligent and capable, will better understand and recollect the directions of his employers, better comprehend the nature of his duties. If need be, he can keep an account of what he does. He has in some measure learned to think; he will have a higher sense of self-respect, and be more reliable.

The difference in favor of a workman who is so far furnished with intelligence that he can do his own share of thinking, instead of relying entirely upon his employer for every exercise of judgment and forecast, is very great to the employer. If the latter is compelled to supply all the head-work, he must be in constant attendance, and exercise the utmost vigilance. Five stolid workmen will cost

him as much time as ten intelligent ones, and a great deal more care, vexation, and loss. Hence intelligent labor is worth more, and will bring more.

THE FRUGALITY OF THE LABORER.

Another important consideration in connection with this part of our subject is, that the educated laborer will be more likely to appreciate his true interests, and *save* a part of his earnings. Every dollar he saves and accumulates in the shape of property, of whatever kind, will render him more independent; and the more independent he is, the more likely he will be to get fair wages. He becomes, to a certain extent, a capitalist, and can measure strength with capital on better terms.

The man who has nothing upon which to subsist to-day must work to-day, at whatever price, or starve; while he who can get on for a fortnight without employment may choose whether he will work for less than a fair price to-day or not.

This is a matter of great importance to the laborer; for the *natural* advantage the capitalist has over him is, that the latter can wait a little, while the former must work NOW. The laborer or employé of whatever kind (for all are subject to the same law) should strive earnestly to make himself as *independent in his position* as possible. Hence self-denial and economy, when exercised by those who live on wages or salaries, are amply repaid by better terms of service. There is a homely adage, "that a man is poorer for being poor," which laborers, of all others, should bear in mind.

DISTINCTION OF SEX.

Women receive less wages than men. This is doubtless true in all the so-called civilized countries. The difference may be stated at about fifty per cent. to their disadvantage; that is, where the man receives one dollar, the woman receives fifty cents.* And this, too, not only where the services of the two sexes differ, but where they are identical, as in school-teaching, type-setting, etc. Why this disparity?

Political economists, so far as we know, have not troubled themselves much about it. Philanthropists have taken cognizance of the fact, and have sought to apply a remedy, but generally, we may say uniformly, with little success. We shall not go at length into the subject, only endeavor to state the causes from which we suppose the difference arises. These may suggest the remedy.

The first consideration to be noticed is the fact that the two sexes exist in remarkably equal numbers throughout the world. There are as many women as men.

The second, that while almost all occupations and employments are accessible to the male sex, but comparatively few are, by the opinions and customs of society, regarded as proper for women. One, therefore, has the whole field of life in which to act; the other is limited to a part.

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* The average monthly wages of male teachers in the public schools of Massachusetts, 1857–8, was $49.87.

The average monthly wages of female teachers in the public schools of Massachusetts, 1857–8, $19.63.

On the principle, then, of supply and demand, the number of females being as great as that of males, while their employments are so much fewer, they must of necessity work for less reward. The supply is greater than the effective demand.

A third fact is, that the part of labor assigned to women is of a more dispensable character. A great part of the labor of women is connected with the comforts, conveniences, and luxuries of life: hence it can and will be dispensed with, unless it can be had cheap. The staple productions—corn, cattle, iron, cotton, and the like—must be had, at whatever price or cost of labor; but not so with the thousand-and-one little articles of beauty, taste, and fashion which female industry creates in every household. For example: suppose a farmer employs two men to carry on his agricultural labors, and usually the same number of females in the work of the house. Now, if he should be so pushed for means as to be obliged to dispense with one of his employés, which would it naturally be, one of his hired men or hired maids? Doubtless one of the latter; because by doing so he would only lose some of the conveniences and comforts of life, without, perhaps, much sacrifice of property; while in the other case he would lose part of his crop. As now employed, by far the greater part of female labor creates no values, no vendible commodities.

There seems to be a prevalent feeling at the present day that the wages of woman ought to be increased; that her position ought to be less dependent. But those who are satisfied with the existing customs and opinions of society, by which the

sphere of woman is restricted to its present limits, ought to be equally well satisfied with the compensation allotted her; for it is just such as must follow.

No attempt to enhance her wages by legal enactments or appeals to human sympathies or benevolent organizations need be made; for there is a law that overrides all these,—the law of supply and demand; a law founded in nature, inexorable and immutable. An increase of her wages can result only from an increase of her employments,—of employments, too, of an equally indispensable character as those of the other sex.

That a change of this sort is fortunately in progress in most civilized countries, and especially in the United States, is apparent. The introduction of machinery is doing much to equalize the wages of the two sexes. Water and steam are now made to accomplish that which could once be done only by human strength, leaving the residue of labor, which is, to a great extent, the exercise of intelligence and attention, to be performed by persons of either sex. Hence there is now a great demand for the labor of females where there was once none at all. There is less demand for muscle, and more for mind: this brings woman nearer an equality with man.

A NEW CLASSIFICATION OF WAGES.

There have now been presented most of the considerations we have room to offer in regard to the subject before us, and in somewhat the usual manner of arrangement. We propose, in conclusion, to give what may be a new, but, as we think, a more natural and scientific classification of wages.

Properly considered, wages are paid for three different kinds of *power;* viz.:

1st. Physical Power, or mere muscular effort with the spade, shovel, hoe, and the like; the kind of labor least elevated above that of the horse or ox. This power is most plenty, comes by nature, costs the least, and is therefore cheapest.

2d. Mental Power,—those faculties of mind that give ability to manage complicated affairs, the general operations of agriculture, manufactures, commerce,—all services, in fact, that require the exercise of judgment, discretion, reflection, calculation. Such power is more rare than physical force. It will therefore command a higher price, especially in a progressive state of society. To this class may be referred all persons of natural ingenuity, inventors, authors, and men of genius. Such often receive great rewards.

To prepare men for the exercise of their intellectual powers, a considerable amount of education and training is necessary. Hence such powers are not only more rare, but more expensive, than brute

force, and therefore rightfully command higher compensation.

3d. Moral Power. As man advances in civilization,—as wealth, its great concomitant, increases, and social combinations are multiplied,—it becomes more and more necessary that important trusts should devolve on individuals occupying particular stations. With all the checks and securities that can be devised, the greatest reliance must ever be placed on the *character* of the person to whom the trust is committed. Oftentimes the honor and interests of vast bodies of men must be committed to a single hand.

Hence arises a necessity for something more and higher than physical and mental faculties or qualities combined,—something that shall furnish a guaranty, irrespective of all contrivances, that these high trusts shall be faithfully discharged. That guaranty is found in *the moral power* of the individual,—that power which gives such a control over appetites, passions, and propensities as affords assurance that under no circumstances of trial or temptation will he ever depart from the strict line of duty.

When men are found possessing this high moral power over themselves and the accidents of their position, they will, of course, be called to places of high responsibility and trust. Now, as such men are more rare than those having only physical power, or physical and mental power combined, they will command higher rewards,—the highest paid for any class of services.

CHAPTER IV.

LABOR COMBINATIONS.

In connection with the subject of wages, it seems necessary to inquire somewhat in regard to the rights of the laborer, since upon these his compensation must to some extent depend.

Under a government acknowledging the rights of all men, the laborer must, of course, have the same rights as his fellow-citizens, neither more nor less. He asks no favor, and grants none. He demands the same justice, the same freedom, accorded to others. He should be able, so far as law is concerned, to work when and for whom he chooses, and for such consideration as he can get in the great competition of industry. The law cannot say how much he shall accept for wages, how many hours shall constitute a day's work, nor how much the employer shall give him. Each is left perfectly free, and the competition is simply between labor and capital.

But the laborer is not under obligation to act as an insulated individual, any more than the capitalist. If the latter is permitted, and even authorized and encouraged, to combine with his fellows in order to enhance the power and profits of capital, it is equally the right of the laborer to do the same, and equally

the duty of the legislator to give him any facilities for doing this he may justly demand.

If capital is incorporated, labor should have the same privilege. If favors in any case are awarded to one party, they should certainly be furnished to the other.

Laborers, then, may combine, if they deem it best to act in concert in regard to their interests.

As a matter of fact, they do form associations for mutual benefit. In England, these "friendly societies," as they are called, are numerous, and often exert a very happy influence. They are formed for a great variety of specified objects.

Some of these are merely charitable,—for assisting members when searching for employment,—for relieving them in case of disability from sickness, and for similar purposes.

Others are for the diffusion of intelligence, like lyceums, mechanics' institutes, etc., or for moral and social elevation and improvement, as associations to discourage the use of intoxicating drinks, and other pernicious and degrading habits. Such societies have been found highly advantageous, especially in Great Britain.

TRADES' UNIONS.

One of the forms in which these associations make their appearance is that of trades' unions. The principal object of these, generally, is the increase of wages. The different trades often combine for this purpose, and endeavor to fix the rate at which they will work. This, it would seem, they have an

undoubted right to do: whether it be good policy is another question.

Men may mutually agree, for example, that they will work only ten hours per day, and will have two dollars per day as wages. All who voluntarily join such an agreement are in honor bound to keep it; and, if the association binds itself to support those who are turned out of employment, it has also the undoubted right so to do.

But, while all this is conceded, it does not follow that if a member violates the rules of the society, his associates may inflict any punishment upon him for doing so, except such as the law of the land authorizes. A trade's union is not an *imperium in imperio*. It has all the rights which each individual member has, and no more. Hence any attempt to inflict punishment upon such delinquent is as much an infringement of his rights, and of the laws of the country, as if it were done by an individual.

Again: nor has a trade's union any right whatever, moral or legal, to interfere in any manner with those of their craft who do not choose to enter into their association. If such persons prefer to work at a less rate of wages than that established in the tariff of the union rather than not work at all, they have the most unquestionable right to do so; and any attempt to prevent them by brute force is an infringement of personal rights which government is bound to resist to the utmost. Such an act is merely the act of a mob, and has no justification. Nay, more: under a free government, where these very men who have thus combined are citizens, with the right of suffrage, and, in common with

others, elect those who enact the laws under which they live, any outrage of this kind is an overt act of moral treason against republican institutions. It is a virtual declaration that these institutions *have* failed and *must* fail to give adequate protection, and therefore these aggrieved parties are obliged to resort to violence; in other words, to override the government, the Constitution, and the laws.

STRIKES.

The foregoing argument covers the whole ground of right or wrong in regard to strikes.

Members of a trade's union, believing that their wages are inadequate or less than their employers can well afford, by mutual agreement *strike* for higher wages. If not granted, they *turn out.* To produce effect, and aid in obtaining what they demand, they parade the streets with banners and music. Very well, so far; for other associations do the same, whenever they see fit. If these demonstrations do not interfere with the general avocations and pursuits of the public, there can be no reasonable complaint. The economy and utility of such demonstrations is another matter; but the right to make them need not be disputed.

But when, in addition to this, a procession, instead of peaceably passing through the streets, proceeds to compel by force every person engaged in a particular trade to quit his employment, the case is entirely altered. The procession has become a lawless mob, and is to be dealt with like any other body of men disturbing the public peace.

All demonstrations of violence of this kind are in utter antagonism, not only to the institutions of society in general, but to the real and permanent interests of the party which makes them. They do harm, and only harm, in the long-run, both economically and morally, and degrade, instead of elevating, the laboring classes, who really have much to hope from their associations of various kinds, if they be peacefully and properly conducted. There is no one thing by which the interests of the laborer can be more effectually promoted than by associations for good and useful purposes, managed in a sensible and becoming manner; and, on economical as well as moral and social considerations, they would then be worthy the approbation and patronage of the capitalist, whose interests would be promoted thereby; but it should ever be remembered that individuality is to be interfered with as little as possible, since the more there is of individual responsibility, socially and politically, the better; the less men are called upon to resign their freedom of action and personal reliance and choice in the various duties and emergencies of life, the more advantageous to their welfare and happiness.

COMBINATIONS TO RAISE THE RATE OF WAGES.

But strikes cannot permanently raise the rate of wages. Combinations of workmen, taking advantage of the peculiar state of trade when commodities are in great demand, may, for the moment, extort, from the necessities of their employers, an addition to their compensation; but they gain no substantial

advantage. When trade becomes dull, they are certain to be placed again in the power of the employer. Especially is it injurious to the interests of the workmen, where by strikes they have forced out of employment large numbers, whom they are obliged to support out of previous accumulations. In such cases, they consume their own little savings, injure the interests of those who have employed them, and render them less able to pay wages in the future.

Freedom, protection, and justice are what labor needs, and must have, or its condition will be depressed, and its productiveness diminished. With freedom, the laborer can work for whom he will; with the ballot, he can insure to himself and his interests protection and justice.

CO-OPERATIVE ASSOCIATIONS.

There is yet another mode in which those who depend upon wages may secure very great advantages to themselves; viz., by co-operative associations, formed for trading or industrial purposes. These are already somewhat extensively introduced into the United States; and, so far as is known, have been attended with a good degree of success. Prof. Fawcett (now M.P.), in his "Manual of Political Economy," has given a very full and interesting account of certain co-operative societies in Europe, from which we extract the following:

"The co-operative movement in England was first commenced at Rochdale.* About 1844, a few working-men in that town sus-

* The residence of John Bright, M.P., and where his family carry on a large manufacturing business. A. W.

pected, and no doubt justly so, that they were paying a high price for tea, sugar, and other such articles, when they at the same time believed they were not free from adulteration. They therefore said, 'Why should we not club together sufficient among ourselves to purchase a chest of tea and a hogshead of sugar from some wholesale shop in Manchester?' This they did; and each one of their number was supplied with tea and sugar from this common stock, paying ready money for it, and giving the same price for it they had been charged at the shops. When all the tea and sugar had thus been sold, they agreed to divide the money thus realized among themselves, in proportion to the capital each had subscribed. They found, to their surprise, that a large profit had been realized. The great advantage of the plan became self-evident; for not only were they provided with a lucrative investment for their savings, but they obtained unadulterated tea and sugar at the same prices they had been previously obliged to pay for the same articles when their quality was deteriorated by all kinds of adulteration. A fresh stock of tea and sugar was, of course, purchased. Other laborers were quickly attracted to join the plan, and subscribe their savings; soon the society was sufficiently extended to justify them in taking a room, which they used as a store, and the success of the plan fully kept pace with its enlargement.

"This society, now famous as the Rochdale Pioneers, possessed in 1865 a capital of about £72,000. The business was not long restricted to articles of grocery: bread, meat, and clothing were all sold on the same plan. Their capital so rapidly increased that they were soon enabled to erect expensive flour-mills; and a supply of pure bread, as well as unadulterated tea, was thus insured.

"A ready-money system is so scrupulously adhered to that even a large shareholder cannot make the smallest purchase on credit. The managers of the business are chosen by the general body of shareholders; and, in almost every case, an excellent selection has been made.

"With regard to distribution of the profits, a sufficient sum is at first allotted to pay a dividend of five per cent. on the capital; the remaining profits are divided on the following plan: Every person, when he purchases goods, receives one or more tin tickets, on which is recorded the amount of his purchases. At the end of every quarter each person brings these tin tickets, which form the record of his aggregate purchases; and the remaining profits are

distributed in proportion to the aggregate amount which each individual has expended at the store. Thirteen pence in the pound (equal to about five and a half per cent. on the amount purchased) is the average amount which, in this manner, is received as a drawback." An annual dividend was made in 1865 of £25,000, among 5500 members.

The reasons for this extraordinary success given by Prof. Fawcett are the ready-money system, selling for cash and buying for cash,—turning capital over many times a year,—a large custom assured by the large membership, and economy of administration.

A very successful association of co-operative masons has existed in Paris since 1848, commencing with seventeen members, with a capital of $70. It has grown to very large dimensions, has a capital of over $70,000, and contracts for the building of the largest hotels and railway-stations.

CONCLUSIONS.

We have been thus full in our statement in regard to co-operation, because it seems to offer a more satisfactory solution of a great economical problem —the relations of capital and labor—than any other hitherto presented; and the prospect now is that it will soon be introduced extensively into the trade and manufacturing industry of the world.

To all this the political economist does not object; on the contrary, he looks complacently on the grand experiment. He will only insist that co-operative undertakings, as well as all others, *to be successful*, must be carried on in strict conformity with those laws of production and exchange which govern in-

dividual transactions. Co-operation can have no dispensation from the laws of trade.

If the management of a co-operative establishment is intrusted to incompetent hands,—to those who have neither the knowledge nor capacity to conduct it wisely and efficiently, a failure must be the consequence. If dishonest and unfaithful persons are employed, disappointment and loss will be certain; and, especially if credits are given, the final result will be disastrous. We regard it as indispensable that *no credit whatever* should be granted. The cash principle has been, so far as we can learn, strictly adhered to by co-operators in Europe. The example set by the Rochdale Pioneers of selling entirely for cash on delivery, which insured their marvellous success, should be everywhere followed. We could have no faith whatever in any such association which bought and sold on credit. This for several reasons:

1st. Because if credits were given, the purchases must be made on credit, and of course the *saving* which everybody knows is made in purchases by cash payments could not be realized. This alone would make a difference of at least a moderate dividend to the co-operators.

2d. Because if credits are given, a considerable additional expense must be incurred in keeping accounts and collecting bills. The attention of the managers must be divided and their minds distracted by the vexations and delays inseparable from the adjustment of book accounts.

With a co-operative association, the goods should *always* be in one hand or the cash for them in the

other. Such companies cannot give and take credit like private firms and joint-stock companies. As every one of the co-operators must be bound for all debts incurred, every prudent man having any pecuniary responsibility would be unwilling to entangle himself with a concern that might occasion him loss, the extent of which it would be impossible for him to anticipate.

We are thus decided and emphatic in regard to the giving of credit by the associations in question, because we desire a wide extension of the co-operative principle and its permanent success, and feel confident that if immediate cash payment is not insisted on, there will be heavy losses to those who can ill afford to meet them, and the general adoption of the principle be delayed, though we should not doubt that it would finally triumph.

Co-operation will be found, of course, much more difficult in manufactures than in trade, for several reasons:

a. A larger capital will be required, and a greater proportion generally in that which is fixed, in real estate, machinery, etc.

b. There will be greater need of skilled labor, and a greater diversity of talents and acquirements, than are demanded in the mere purchase and sale of goods.

c. The number of persons actually employed in work will be greater; yet all must work in harmony and to mutual satisfaction, or there will be no successful result.

d. The sale of fabrics, if disposed of for cash, in competition with the large establishments, private

and corporate, engaged in every branch of manufacturing industry, presents another obstacle to the introduction of co operative labor. We have long regarded the credit system, so universally adopted and so widely extended in the United States, as the greatest obstacle to a participation in profits on the part of the laborer.

e. Another very obvious consideration in regard to the distinction between the operations of a trading and a manufacturing association is, that with the former, the customers of the establishment are already secured without effort, and their patronage certain, since they will be for the greater part interested as members of the concern; while in manufactures, it will be generally true that but a small part of all the articles produced will be required by the wants of the co-operators, and consequently must find a market, however difficult that may be.

All these obstacles are overcome and the object fully attained by adopting another form of association, which may perhaps be properly called

CO-OPERATIVE PARTNERSHIPS.

Well-established firms in any department of industry may offer the workmen in their employ a share in the net profits of their establishments. For example, a coal-mining company may propose that after allowing a certain profit upon the capital employed, the workmen shall receive, say ten per cent. of the net profits of each year, to be divided among the workmen according to the amount of labor performed by each during the year.

This has been tried with most favorable results in Great Britain, France, and other parts of Europe, and it has been found, in some cases at least, if not in all, that the workmen were so much more efficient and careful of making waste of tools, machinery, and materials, that while receiving an addition to their wages by a share of the profits, the *entrepreneurs* or employers have not diminished their incomes. This has not only given satisfaction to both parties, but has increased production. The influence upon the morals of the laboring classes has been excellent.

The results of experiments of this sort thus far made seem to show that this kind of co-operation will be adopted to a large extent in certain departments of production. That it is feasible in any established business is certain; that it will be generally adopted depends, as it now seems, upon the enlightened self-interest of employers. That it may become very general in all the principal mechanical and manufacturing industries is at present highly probable. It rests entirely with the employing class to say to what extent it shall be carried. It is not necessary for the accomplishment of the object sought that employers should relinquish in any degree the entire control and management of their business affairs. It is only a share of the net profits with which the laborer has any concern.

REDUCTION OF THE HOURS OF LABOR.

An extensive movement is being made in the United States and Europe to reduce the number of hours constituting a day's work.

The present limit is generally ten hours, and eight hours is demanded,—equal to a difference of twenty per cent. This movement is an important one, affecting in its results not only the strictly laboring class but all others, and therefore entitled to a careful examination.

What will be the economic effects of the proposed change were it practicable?

Only in one of three ways can the object be attained: 1st, by the universal consent of the employing class; 2d, by the equally universal consent of the laboring class; or 3dly, by the authority of law.

a. That the employing class (*entrepreneurs*) will voluntarily consent to the contraction of their operations by twenty per cent. and the corresponding loss in the use of their entire capital employed in production, is not to be expected.

b. That the laboring class will unanimously agree to reduce their hours of labor, and consequently their incomes by twenty per cent., is not to be supposed, especially when a great proportion of them now work by the piece, and would rather extend than contract their hours of employment. Precisely how great the proportion of piece-workers is has never been determined that we know of, but from somewhat extended inquiries we have ascertained that in many of the largest establishments the proportions of this class of workmen is equal to fifty to eighty per cent. of the whole, and the constant tendency is to the increase of piece-work by new inventions of machinery adapted to the purpose.

c. Whether the government of any country can

be induced to enact that no man shall work for wages more than eight hours per day, will certainly depend in all republics upon the sentiments of the people. If the object commends itself to the intelligence and good sense of the constituency to such an extent that the necessary enactment can be secured and enforced, the object may be effected. This seems at present the only possible practicable way to establish eight hours as a day's work. Waiving all objections to such a measure that may here be stated, let us, for the sake of the argument, suppose that the eight-hour limit is fully established as a day's labor.

EFFECTS OF RESTRICTING THE HOURS OF LABOR.

The first effect of this must be to reduce the amount of commodities produced. It is certain that men cannot produce as much in eight as in ten hours, and consequently production must be proportionally diminished. We know it has been claimed that as much can be produced in eight hours as in ten, because the workman can labor with more energy and efficiency for the shorter than the longer time; but the practical question is, *will he?* Why should he? Will he have any greater inducement, any stronger motive? He is still at work by the day, and what difference can it make to him whether he works faster or slower so that he works as fast as his fellow-laborers generally? Certainly none at all. Why, then, should he use extra effort? We may safely conclude he will not, and consequently production must in the long-run be lessened to the extent of the diminution of labor time.

ECONOMIC EFFECTS UPON THE LABORER.

Will the laborer secure as large compensation for eight as for ten hours? It has been contended with great earnestness and apparent sincerity that he will; indeed, it has been insisted that he will get higher wages.

To ascertain the truth of this, let us suppose that fifty hours' labor are required to produce a gold eagle worth ten dollars. Then working ten hours per day the miner would get an eagle in five days, giving him two dollars per day as wages; working eight hours per day, he must expend six and a quarter days in getting his ten dollars' worth of gold, and his wages would be but $1.60 per day, because $\$1.60 \times 6.25 = \$10.00$.

The same result would be equally certain in regard to every other product. It matters not in what form the value is produced, the amount will be as the quantity of labor required; and therefore, by an inexorable law, the compensation or wages will be in the same proportion.

The mistake of those who assume the contrary, arises from not taking into consideration the difference between money-wages and commodity-wages, or nominal and real wages.

The question for the laborer or salaried man to consider is, not, as we have elsewhere said, how many dollars he can get for his labor, but how much of food, clothing, shelter, and other desirable objects he can secure; and in that view of the case, if he shortens the hours of his labor he will diminish to

an equal extent the compensation he receives, whether he is working for himself or on wages.

As this is an important point in our discussion, we give the following illustration:

Suppose a hat to require thirty hours', or three days', labor, of ten hours each, and a pair of boots an equal quantity. The hatter can then obtain a pair of boots for three days' labor, and the bootmaker a hat for the same. But the eight-hour limit being adopted, the hatter must work three days and three-quarters for his boots, and the bootmaker the same length of time for his hat. Each party makes a loss of six hours, or three-quarters of a day, upon his purchase; each must expend the labor of three-fourths of a day more to obtain his object—equal to a loss upon the laborer's full time of twenty per cent., and that must be the actual average loss upon his whole wages by restricting him to eight hours' production instead of ten. He works twenty per cent. less time, and has for the same number of days' work twenty per cent. less of commodities; he virtually reduces his entire income to that extent.

The great point overlooked by those who expect equal wages for less labor is, that the laborer is a *consumer* as well as *producer*,—that he consumes as much in some form as he produces; for if he saves money to purchase or build a house, or invest in any other manner, the result to him will be same, for all values will be equally affected.

A simple proposition will clear up much obscurity in regard to the point under consideration. It is this: A *general* rise of wages is of no advantage to those who work for wages; that is, if throughout

the world all wages were advanced equally, the result to the wages class would be the same as if no such advance had taken place. If the laborer should get more money for his labor, he must pay more for all his purchases; because values would not be increased, even if prices were advanced.

Again, if as much compensation can be had for eight hours as for ten, why not as much for six hours as for eight, for four hours as for six, for two hours as for four?

If the principle assumed, that as high wages may be had for the shorter as for the longer time, were sound, it would hold throughout; but we see it does not, that it becomes absurd, and therefore conclude it to be false.

EFFECTS UPON CAPITAL.

Another consideration connected with this subject is the effect that a diminution of labor would have upon capital.

Its profits, like the workman's wages, must be abridged, and the increment that could be yearly added to it would be diminished. If production were reduced by one-fifth, the previous increment would be reduced far more than that, because there could not be so large a surplus over necessary consumption. A greater part of the gross earnings must be consumed. Then, should the population go on increasing at its former rate, while capital was increasing at a slower one, the latter would eventually become more scarce, and consequently more difficult of attainment. Would this inure to

the advantage of the capitalist, the labor class, or the country generally?

The loss that arises from a reduction of the hours devoted by labor and capital to the production of wealth must fall upon both; but the greatest loss in the aggregate must fall upon the laboring classes, because they are by far the most numerous. If it requires five *days'* labor to produce a barrel of flour instead of four, it is clear that the class consuming the most flour must be the greatest sufferer.

Time is the working-man's capital, that which he uses in the production of wealth. If there be three hundred working days, of ten hours each, in a year, he has three thousand hours per annum to invest, through his labor, in such commodities as he desires. At eight hours per day he would have but twenty-four hundred. The latter limit being universally adopted, must not the aggregate production of the world be diminished by one-fifth? Then, if the dividend, or amount to be divided, is reduced one-fifth, must not the individual quotient, or each one's share, be equally diminished? And must not the same principle apply to the capitalist whose operations are curtailed in the same proportion?

It may be said that it has never been proposed that eight hours should be fixed as the limit of labor for the whole industry of a nation, but only for that part of it engaged in manufactures and mechanical employments. But what would be the result of such an arrangement?

If the agriculturist must work ten hours, while the shoemaker, for example, wrought only eight, is it not certain that farm-laborers would become

shoemakers so fast as in a short time to reduce the wages of the latter to an equality with the former? No one can reasonably doubt that such would be the result.

We have endeavored thus far to show only some of the economic effects that must follow a reduction of the hours of labor.

Of the social and moral results of such a measure we have said nothing. That subject is not within our province. It belongs to the dominion of sociology.

It may be true that, notwithstanding all that has been offered, however correct it may be, it is for the best interests of all mankind that the proposed reduction of the hours of labor should take place. There are certainly other and higher considerations than the greatest production and accumulation of wealth. Would society be improved and elevated by such a reduction? Would the highest interests of man, whether laborer or capitalist, be promoted by it? This problem it is the province of social science to examine and solve.

EQUALIZATION OF WAGES.

It is maintained and practically enforced by some labor associations that all workmen in the same trade should have equal wages, the active and the stupid, the skilful and unskilful, the industrious and the indolent. So that they are employed, all must stand on the same level. It is sufficient to say that such a policy must repress all emulation, all desire for improvement, and all progress; for the good reason that men do not act except from

a motive, and there could be no emulation, no motive for improvement, where there was no reward for it. Should such an unwise policy be generally adopted (which seems in the highest degree improbable), the production of wealth would be greatly diminished and the laboring classes sadly demoralized.

INTERFERENCE WITH APPRENTICESHIP.

In some associations attempts have been made, and with more or less success, to prevent the increase of workmen in a particular branch of industry, by forbidding any one to employ apprentices except under certain restrictions and limitations.

This is a direct, arbitrary, and most dangerous interference with that freedom of labor which is entirely essential to the greatest production of wealth and the most complete harmony of industrial interests.

With freedom to enter or leave any particular branch of production, it is certain that under the natural law of supply and demand, each would secure just that amount of labor which its own best interests and the general welfare required; while under a labor monopoly like that of which we speak, the trade itself for whose benefit it was designed would not be developed in its true proportions, and the public in general would be injured. Were the same policy adopted by all trades, a general war of interests would be the certain consequences, resulting in general disadvantage.

A combination to prevent the learning of a trade in no way differs in its effects from any other mo-

nopoly or interference with the industry of a country,—it interrupts only to diminish production and demoralize labor.

CHAPTER V.

PROFITS.

By the term "profits," we mean that share of wealth which, in the general distribution, falls to those who effect an advantageous union between labor and capital.

All wealth, being the product of labor and capital, would be divided between them, were it not necessary that still another agent should take part in production; viz., an employer, manager, undertaker* (*entrepreneur*), projector, contractor, business man, merchant, manufacturer, farmer, or whatever else he may be called, whose services are indispensable.

Capital cannot move itself; labor cannot command capital, and therefore has little power: hence the necessity for an employer, or *business man*, to effect a union, and put both in successful operation. Capital without labor is an infant; labor without capital, a cripple.

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* "It is to be regretted," says J. Stuart Mill, "that this word, in this sense, is not familiar to the English ear. French political economists enjoy a great advantage in being able to speak of *les profits de l'entrepreneur.*"

The parties, then, to production are, (1) the laborer; (2) the capitalist; (3) the employer, or manager. Each has a distinct province, and a separate interest; and each must receive his reward, or share of the general product.

This is, undoubtedly, the natural division of the subject. To confound the capitalist with the employer, as often is done, throws the whole matter into confusion. There is no occasion whatever for this. The man who owns the capital, and receives his compensation for its use in the shape of rent, or interest; the laborer, who applies muscular or mental power to the production of value; and the man who, as employer or manager, relieves the first from the anxiety and risks of trade, and furnishes the second with the means by which alone he can work to advantage,—are separate persons, with distinct interests.

The capitalist, as such, has no share in the profits of business. He does nothing but loan his wealth, which, by the value of its services, brings him an income, in the shape of rent for real, or interest for personal, estate. If he is careful in regard to the securities he takes or the credit he gives, it is of no immediate consequence to him whether trade is dull or brisk, whether profits are high or low; but, of course, it is true that the capitalist has a general interest in the profits of business, to this extent,—that unless profits, in the long-run and on the average, are such that the business man can afford to pay the usual rate of interest, the compensation of the capitalist, or his share in the general distribution, must be reduced.

On the other hand, to the employer, in whatever department of business, the question of profits is vital. His success depends upon the amount he can secure, after meeting all his necessary expenditures for labor, rent, interest, taxes, insurance, bad debts, etc.

It often happens that the employer (manufacturer, merchant, etc.) is the owner, in whole or in part, of the capital used. This in no wise alters the case; for then he receives income both for his capital and his labor, or efforts. He saves all the interest he would otherwise pay to the capitalist; he pays interest to himself. He may own the buildings he occupies; and in so far he is a capitalist, paying rent to himself.

It is, then, by this triple alliance of enterprise, capital, and labor that all production is effected; and between them, in the final result, it should be shared. The economical question is, How shall an equitable division be attained?

We have previously said, in relation to capital and labor, that there must be a just proportion of each to the most efficient production,—sufficient labor for the capital, and capital for the labor: so there must be sufficient enterprise, business talent, and tact to use both; and the several parties must be left to act voluntarily, under the instincts of human nature and the laws of value. Indeed, the great difference in the wealth of nations is made by the business class: mind is more effective than muscle.

With perfect equality and freedom of action, each will certainly obtain the share that belongs to him. Laws in regard to this, as all other property rela-

tions, are not needed to direct human industry, but to control human passion; to prevent one party from trespassing upon the rights of the other.

It has been common to speak of the profits of capital, instead of the profits of business. This is a mistake which confounds necessary distinctions. The profits of trade, or business, are to be reckoned *upon the amount transacted*, not upon the capital employed. The difference between the two modes is often very great.

We give the following table as an illustration of what we mean:

Difference of Profits as computed on the Capital employed or the Business transacted.

Capital employed.	Sales.	Rate of Profits on Sales.	Gross Profits.	Expenses, including Interest.	Net Profits.	Net Profits, if reckoned on Capital.	Net Profits, if reckoned on Business done.
$100,000	$500,000	15 per cent.	$75,000	$25,000	$50,000	50 per cent.	10 per cent.
20,000	150,000	10 " "	15,000	7,500	7,500	37½ " "	5 " "
10,000	30,000	30 " "	9,000	2,000	7,000	70 " "	26⅔ " "
50,000	350,000	5 " "	17,500	7,500	10,000	20 " "	2⅞ " "

The actual transactions of business present an endless variety, of which the above may be taken as samples.

The object aimed at by the business man is to obtain as large a net profit as possible, irrespective of the per centum of the profit on the capital employed.

RATE OF PROFITS.

There is a constant tendency, in the progress of society, to a decline in the rate of profits; *i.e.* as has just been said, of profits upon business done.

1st. From the acceleration of exchanges, or the rapidity with which capital is used; in consequence of which, the same absolute remuneration can be obtained with less charge on each transaction.

2d. From the increasing number of those who, by education and training, are qualified for independent business.

3d. From increasing facilities for intercourse by steam, on land and sea, and the consequent diffusion of intelligence in regard to prices and markets.

The rate of profit can never be arbitrarily fixed where there is free competition, any more than the wages of labor; yet in a given country, or mart of trade, there may be an actual average rate which all individuals strive to attain; say, for example, ten per cent. As a matter of fact, each individual obtains all he can. He does this, especially in places of large trade, by charging as much advance on every article as he finds it will bear. If his rate is too high, his custom will fall off; or, if he has customers, they will be of a hazardous class, by whose delinquencies he will lose more than he can gain by their patronage. Then, again, it is practically true, that scarce any two commodities pay the same rate of profit; some, it may be, only two, some ten, some twenty per cent. And, further, while in the same street one man sells his goods at ten per cent., another is selling at seven and a half per cent., and is making a larger *amount* of net profits at that. Why is this?

First. The latter buys more shrewdly; *secondly*, he carries on his business more by his own efforts, and with less expense; and, *lastly*, sells, as he will

be likely to do, to reliable men, who most certainly discover where they can purchase to the greatest advantage.

RAPIDITY OF EXCHANGE.

The *necessary* rate of profit depends greatly on the rapidity of sales, as compared with the capital employed and the expense of conducting business.

Large sales, with small profits, or a rapid turning of capital, is the natural tendency of trade, as population and wealth increase, and especially as credits are diminished. Those who sell for cash have immensely the advantage of those who give long credits, particularly under a mixed currency, which so largely increases the hazards of trade.

In those communities in which the people are generally poor, and their wants great and pressing, as in newly-settled countries, credits are naturally much extended, and, of course, the rate of profits proportionally increased. This is known to be the case over a large part of our Western States. The people can afford to pay large profits, if by so doing they can get the use of capital, because capital produces so large a return; as, for example, one thousand dollars invested in the spring in ploughing the prairie, and getting in a crop of wheat, will, not unlikely, give a net profit, within six months, of one hundred per cent. But when such communities accumulate capital, and are able to pay as they purchase, they come to buy at greatly reduced rates, and profits fall to the minimum. The average rate of profits in a country is determined by the same

law as wages. Profits are merely *wages received by the employer*. This idea should be kept constantly in mind.

If there are more laborers than are wanted, wages fall; if fewer, they advance: just so with employers, or business undertakers. If there are too many competing for profits, the rate will fall until the excess is driven back into the ranks of labor. As there are, however, comparatively few, in proportion to the whole number of persons capable of labor, who have the requisite capacity and training required for transacting business successfully, and fewer still who can command the necessary means or capital, it will follow that the rewards of the employer will be larger than those of the persons employed. But we must not forget that this difference is less than at first appears, because our observation shows us that, of all who undertake to trade or manufacture, a large majority become bankrupts; and, consequently, the average difference between the employer and the employed is greatly reduced.

There is, undoubtedly, a constant tendency to an equalization and reduction of profits from continual improvements in the means of locomotion, and the increasing intelligence of the people. The opening of railroads has wrought a revolution in this particular. These not only greatly reduce the cost of transportation, but the average rate of profits.

DIVIDENDS.

A large share of the income received by owners of capital, at the present day, comes in the form of dividends on stock, held in corporations and joint-stock companies, formed for almost every conceivable purpose. The introduction of railroads has caused immense investments, the income from which is received in dividends. How are these to be classed? They cannot be regarded as synonymous with interest, or rent: they must be considered as profits. They are received for the profits of business done by proxy. The capitalist may not have the slightest agency in the affairs of the company from which he gets an income; still, he is a partner, though a limited and silent one, and receives his share of the profit or loss.

It may be objected, that bank dividends must surely be classed with interest, since they are made up wholly of interest received for the loan of capital. This is not strictly correct. No inconsiderable share of profit to the banks of the United States is derived from the premiums charged for exchange. American banks are exchange-brokers. Besides, nearly one-half of all the income of mixed-currency banks is derived from the manufacture of currency, not the loaning of money or capital. Although dividends of his kind approach nearer to interest than those of ordinary business corporations, still they are most properly classed with profits.

CHAPTER VI.

INTEREST.

What is paid for the use of money, or any other form of loanable capital, is called "interest." Hence the term "usury."

Interest has its justification in the right of property. If a man can claim the ownership of any kind of wealth, he is the owner of all it fairly produces. Past labor has all the sacredness of present labor, and as justly claims its reward. An associate in production, it is entitled to a share in the product. Whoever by labor produces wealth, and by self-denial preserves it, should be allowed all the benefit that wealth can render in future production. This is the only condition upon which the largest accumulation of wealth can be secured; it presents the only motive that can withstand the impulse to immediate gratification. The desire to gain and the desire to spend are both in human nature, and are conflicting passions. What one takes, the other must relinquish. If, therefore, the desire to spend is unchecked, all wealth and physical well-being disappear in riot and wastefulness. There is the further consideration, that, since to loan capital is to incur risk, that risk should be compensated. It has been a favorite idea with many visionary writers, that interest can be entirely done away with. Proudhon and others have speculated and theorized much on

this subject; but nothing can be more idle. We can no more get rid of interest than value: both are in the laws of nature. Yet this has been, in the view of many, the philosopher's stone, that was to transmute all baser metals into gold. It is akin to the idea that credit can be made to take the place of value, and is sustained by the same sort of reasoning as that "property is a crime; a monopoly that must be destroyed."

We will notice briefly a few of the main principles that govern the rate of interest the world over.

1st. Interest, in its general rate, will be determined by the productiveness of labor in the community where it is employed. It is evident the reward of capital cannot be larger than the total profits of business, because it would no longer be used; nor can it be equal to these profits, for no one would be disposed to employ it and pay out his whole profits for its use. Interest must, therefore, be less than the aggregate amount of the returns of production; and finding, as it does, a competitor in present labor, capital will be obliged to submit to an equitable division.

USURY LAWS.

2d. Interest will be governed by the law of supply and demand. This is so evident as not to require argument or proof, hardly illustration. Old countries abound in accumulations of capital. Interest is there found cheap. In all new countries, there is a youthfulness of capital; there has not been time to develop the powers of production; and hence interest is high. The United States of America afford a

most striking example in point. There is a vast amount of uncultivated but fertile land, while the amount of capital with which to cultivate it is comparatively small. So of its manufacturing capacities. Hence there is a high general rate of interest. This is governed by the supply and demand, *i.e.* by the laws of value alone, and should never be interfered with by legal enactments.

This is a lesson mankind have been slow to learn; yet the most commercial nation in the world (Great Britain) has abolished all usury laws. The experiment was at first made with great caution, limiting the exemption to a particular kind of paper, and the time in which it should operate to a few months; but it was found so perfectly satisfactory to the community, that, after a fair trial, the abolition of the usury laws was made final and complete.

But, upon a question so much in dispute, it may be desirable to give the principal reasons why the matter of interest should not be interfered with by law.

(*a*) When it is made a penal offence to take over a certain per cent. interest, if money is worth more, as it often will be, it will be obtained by some indirect process. Most persons do not like to directly violate a law, however foolish or unjust they may deem it to be; consequently, they will attempt to evade it. There is no difficulty in this. A note may be sold to a broker for what it will bring; and the broker buys it with funds furnished by the capitalist, who stands behind the curtain while the borrower pays the broker for getting the money he might otherwise have obtained directly of the capitalist himself. The

law has not prevented the usury, only increased the rate. The broker feels no responsibility; for he is only an agent between the parties. The capitalist has no scruples; for he is not known in the transaction. Instead of this, the borrower and lender should be brought face to face, in an open market, where each could be protected by law in the transaction; and then a fair, unrestricted competition would assure the lowest rate of interest, obtained most economically.

But for usury laws, the current rate of interest would be as well known as the price of stocks or corn or wool, and would, like them, be determined by the laws of trade; and men would act as intelligently and as freely as in the purchase of merchandise. Freedom is as essential in the disposal of money as in the intercourse of nations.

(*b*) Usury laws create an injurious distinction between different kinds of mercantile paper, and thus occasion embarrassment and loss to borrowers.

For example, the law says in some States that only six or seven per cent. interest shall be taken by the banks. But money may be worth twelve per cent.; and there are ten applications for it, at that rate, to one that can be supplied. What is the result? Why, the bank will make no loans except upon such paper as it can charge with exchange. Exchange is legal, whether it is real or fictitious. A and B apply for discount at a bank in Boston. A offers notes of the most undoubted character, payable in Boston; B offers notes or drafts payable in New York, and he gets accommodated. His drafts have sixty days to run; he is charged one

per cent. exchange, and thus pays twelve per cent. interest. A, having only notes on which no such exchange can be legally charged, must "go into the street," and employ a broker to sell the notes for him at the best rates he can.

(*c*) Usury laws are the principal cause of compulsory deposits, or deposits made to secure large discounts. These are, as we have shown, exceedingly burdensome to the business community, and most dangerous to the currency. If the rate of interest, as at the Bank of England, was left entirely to the state of the money market, these deposits, now peculiar to American banking, would disappear.

3d. Interest will be influenced largely by the safety or hazard of capital. This will depend,—

(*a*) Upon the moral character of the people, whether essentially honest or dishonest, whether honorable or dishonorable, whether industrious, frugal, and temperate, or otherwise.

(*b*) Upon the general thrift of the community; for however well disposed to pay, if decay and decline are general, the hazards of capital must be greatly increased. It must share in the general losses of business.

(*c*) Upon the justice and efficiency of the laws by which the rights of property are secured, and the obligation of contracts enforced. This, as can readily be seen, is one of the most important considerations in regard to the safety of loans; and, of course, the rate of compensation in the shape of interest.

4th. Again, the uniformity of the rate of interest, and its general average, will depend, other things

equal, upon the soundness of the currency. If it consists wholly of value,—that is, if the credit element constitutes no part of the circulating medium or standard of value,—the rate of interest will be as uniform and as low as the laws of trade admit. The rate can never be absolutely fixed at one point; yet, where no credit is used as *currency*, the credits of the country will be so based upon values that the vacillations will be very moderate. They were very slight in Europe until within the last thirty years; that is, until the general introduction of credit currency.

Under a currency in which credit is the principal element, the fluctuations in interest are in proportion to the extent of that element; because, as we have shown, a mixed currency, whenever there is any panic or distress for money, withdraws from circulation with a rapidity proportionate to its weakness, or want of value. Hence the frightful revulsions we have witnessed.

A legal rate of interest should be established by law, in all cases where the parties have not themselves agreed upon one, so that, in the absence of all agreement or contract, a given rate may be awarded. This legal rate would probably be the general average obtained for the use of money.

CHAPTER VII.

RENT.

RENT is paid for the use of land and its appendages, which together are called "real estate." The question of the rent of land is of much less practical importance in the United States than in Europe, since it is here generally held in fee simple by those who cultivate it. Yet, as an economic question, it deserves consideration. And there is an especial inducement, since we certainly have in this country the best opportunity to investigate, in their simple primitive form, all the phenomena connected with it. Constantly entering upon new lands, we have exhibited for our observation the working-out of problems which long puzzled the philosophers of the old world.

1st. Rent implies ownership, since no one would pay for the use of that to which all had an equal title. This may be called the first condition.

2d. It implies society, so that more than one person shall desire the use of the same land or appendages. If exchange, as M. Bastiat says, "is civilization," rent is society. This is the second condition.

From our definition, it will appear that rent is paid (*a*) for land, (*b*) for whatever is added to its value or desirableness. We cannot separate the two considerations, nor would it be of practical utility if we could; as, from what we have already en-

deavored to show, value is not derived from the gifts of nature, but the labor of man: "land, water, steam, electricity, and the like, confer no value."

Land may be said to be the foundation of rent; and, since the rightfulness of appropriating it has been disputed, it may be proper to remark that we deem it a sufficient answer, that appropriation is indispensable to the production and accumulation of wealth, to the progress of civilization, and the welfare of the human race: therefore it is right.

Man, in his original or savage state, is a *hunter*. He needs no appropriation of land; for he roams at large through the forest. He accumulates little or nothing; and it is of small importance where he builds his temporary cabin.

Nor in the second or nomadic condition, when man becomes a *shepherd*, does rent make its appearance. His business is no longer mere destruction, but preservation and use. This elevates his condition; the employment has a far more ennobling effect upon character; higher faculties and better feelings are developed. In the natural progress of events, he becomes an *agriculturist*. His chief business now is to till the ground. How can he do this without preparation of the soil from which he is to draw his sustenance? And why should he do this, if another may at will dispossess him of his labors? The land *must* be divided, appropriated, and held by some tenure that can be relied upon; and, when this takes place, rent makes its appearance, and increases in intensity as man becomes more and more advanced in social condition; for with agriculture come the mechanic arts, manufac-

tures, commerce, villages, towns, cities,—civilization.

We now come to the elements which enter into the rental of land.

1st. *Location.*—This grows out of the social condition of man, to which we have alluded. If men lived as isolate beings, and there were land enough for all, and the whole equally fertile, there would be no rent; but, once gathered into villages and communities, rent would make its appearance, *although there were as much land as all desired, and each part equally productive.*

This point we shall endeavor to make plain by an illustration. A colony of thirteen families settles along the shore, where all the land is unclaimed, and immigrants have only to choose where and how much they will occupy. We will suppose the land all equally fertile, agreeable, and accessible. In point of fact, there shall be no natural difference between one lot of one hundred and sixty acres (what each family desires) and another; absolutely no choice arising from anything appertaining to the land. They accordingly lay out thirteen lots half a mile square. This allotment and location upon the shore we represent as follows:

1	2	3	4	5	6	7*	8	9	10	11	12	13

In this arrangement, it will be seen, the lots commencing on the left are numbered 1 to 13. No. 7 is, of course, the middle lot.

Now, all being equally eligible, the land equally accessible and good, and there being as many lots

as settlers, and each as large as any one desires, will there be any value to them? Yes: because all will prefer No. 7, for they perceive that it is most desirable, inasmuch as it is central; and, if public buildings are erected for the accommodation of all (school-house, church, etc.), they must be placed on that lot. If a landing-place is made, or a warehouse put up, for the commerce of the settlement, it must be on No. 7; for the obvious reason that it is the point at which the whole population can most readily assemble, and it thus forms the natural centre of business.

All this is so apparent, that each man prefers No. 7; but only one can have it. What follows? It must be sold to the man who will give the most for it. Some one will give one hundred bushels of wheat, or its equivalent,—six bushels rent per annum. All this does actually happen in every case of new settlement; not, indeed, in a manner always so distinct and striking as in the case we have supposed, but in principle as certain and absolute.

If this is so, we have established the fact that, though all land were equally fertile, and there were enough for all, and all equally desirable in every other particular, yet that rent would arise from the social wants of man, which make mere *location* a circumstance affecting its value, and create a rental independent of all other considerations.

2d. *Difference of Fertility.*—We will suppose four different tiers of land, of unequal fertility. The first will yield forty bushels of corn; the second, with the same labor, thirty; the third, twenty; the fourth, ten.

Now, while there was enough land of the first to produce all the corn wanted, nobody would give any rent for the first tier on account of its fertility; but when, by the increase of population, it became necessary to cultivate No. 2, which would only yield thirty, No. 1 would command a rental of ten bushels, because a man might as well give ten bushels rent for No. 1 as to cultivate No 2 without rent.

When, again, necessity compelled the cultivation of No. 3, No. 2 would pay a rent of ten bushels, and No. 1 of twenty bushels. And further, when tier No. 4 must be brought under culture to produce the quantity of corn needed for consumption, then, as it would with equal labor produce but ten bushels, No. 1 would yield a rent of thirty, No. 2 of twenty, and No. 3 of ten; while the last, or No. 4, would afford no rent.

3d. *Population.*—We will further suppose that from the increase of population, more corn is wanted than can be raised; and, consequently, importations are made at an increased price,—equal, say, to fifty per cent. Now if, for the sake of convenience, we take the price of corn to have been originally one dollar a bushel, and to have advanced to one dollar and fifty cents, it will come to pass that tier or quality No. 1 will have a rent of $45; No. 2, of $30; No. 3, of $20; and No. 4, which now for the first time produces rent, of $5.

4th. *Application of Capital to Land.*—This is done in various ways,—by the use of fertilizing materials, drainage, deep ploughing, etc. For every such appliance, wisely made, a rent is received, supposed to be equivalent to the expenditure incurred.

And here it may be found that the same expenditure, applied to the different qualities of land, produces unequal results. Five dollars, expended per annum on No. 1, may return but a profit or additional rent of eight dollars; while the same amount, applied to No. 2, will give seven dollars; or to No. 3, will give six dollars, etc.

This will cause a variation in the relative rentals of the different qualities or tiers of land we have supposed.

LAND APPENDAGES.

We have, thus far, noticed only the rent of land, without reference to what may be placed upon it for other purposes than direct production.

We now come to speak of real estate, consisting of dwellings, stores, warehouses, and the like.

When buildings are placed upon farms, they form a part of the preparations which are indispensable to agriculture; and, if erected with suitable reference to economy, will add to the value of land as much as shall be equal to their fair annual rent. Farming cannot be carried on without buildings; therefore, so far as buildings are absolutely necessary, they will command a rent as certainly as the land itself. This must be true; and yet all know that "improvements," as they are called, in the shape of buildings, seldom increase the value of farms in proportion to their cost. For example, if the land alone is worth three thousand dollars, and buildings are put up costing two thousand dollars, the whole will not, ordinarily, sell for five thousand dollars. Facts of this sort are observed everywhere.

Farms may, as a general rule, be bought, especially in all the older States, at much less than their cost, after making all due allowances for depreciation of buildings, etc. We observe, first, that buildings are not generally put upon farms for the purpose of selling or letting them. They are almost invariably erected by the owners of the land, in order to create for themselves a home. To make that home pleasant and desirable, a dwelling is erected according to the tastes of the owner and his family, rather than the direct profit of the farm.

Whenever, therefore, such farming properties must be sold, the purchaser will rarely, if ever, give more than a fraction of the original cost of the buildings.

And, in the competition of cultivation in a community like the United States, it is to be remembered that its agriculture is a unit; that the products of the accessible and fertile prairies of the West are brought into the same markets as those of the hard and sterile hills of New England. And it is also to be taken into account, that a farm in Illinois, for example, with a productive power of five thousand bushels of corn, will probably not have upon it buildings worth more than one thousand dollars; while on many Eastern farms, of a productive power of but two thousand bushels, the buildings may have cost three thousand dollars. Now, as these farms are, in fact, competing in the same general markets, it is clear that the extra expenditures upon Eastern farms can pay but little, if any, rental, though they may be very pleasant to the occupant.

It is on the same principle that the amount expended in clearings, building walls around farms, and the like, do not, in the aggregate, return much rent or income, compared with their cost. They become, in the progress of years, to a considerable extent, like the gifts of nature, gratuitous. This is true of all countries, at all times.

In cities, where the value of real estate consists principally of buildings, and improvements made upon the land, we find that the land itself feels the operation of the first cause of rent or value, viz., location, far more intensely than anywhere else. An acre of land, once of the value of fifty dollars for agriculture, becomes worth five hundred thousand dollars for city purposes.

The absence of all restrictions upon the ownership and transfer of landed property and real estate, of all entails and mortmain holdings, makes the question of rent one of small practical importance. Where owning is the rule, and hiring the exception, rents regulate themselves; or, in other words, are governed entirely by the operation of the laws of value. They advance or recede with trade and population.

CHAPTER VIII.

TAXATION.—PRINCIPLES OF TAXATION.

Since government, or social organization, is among the wants of man, as truly as food or clothing, we must recognize it in the science of political economy, and provide for it. Government implies functionaries and expenditures. How shall these be maintained? Evidently by the contributions of all, for all are interested. Government may, therefore, rightfully claim a share of all that labor and capital have created. The aggregate of all sums collected is called Revenue; the system by which it is collected is called Taxation.

Although the single object of taxation is to obtain a given amount of wealth (generally in the form of money), yet the modes by which that object may be secured are various.

In ancient times, taxation was often imposed by the arbitrary fiat of the ruler, with little or no reference to equity, or its effect on the prosperity and happiness of the people; but, in modern civilization, it has come to be regarded as altogether the most difficult and delicate task government is called upon to perform.

The question of taxation, in its various bearings, is now made the subject of examination and discussion in all legislative bodies; and taxes are imposed, in all constitutional governments, not at the caprice of the ruler, but by the representatives of the people.

If, then, the property of the citizen must be taken to meet the exigencies of government, it becomes highly important that those from whom it is taken should feel that it is equitably done. Nothing in relation to all the acts of government is more to be desired than that its mode of raising a revenue should be so wisely and economically arranged, so manifestly just and equal, and so well understood by all, that no opposition to its demands shall arise from a sense of oppression.

In the distribution of wealth, as has been before stated, government makes a peremptory claim to so much as its necessities, real or supposed, may require.

This claim is not only peremptory, but prior to every other claim. The laborer must contribute a part of his wages; the business man of his profits; and the capitalist, of his interest, or rent. Every man knows, or should know, that when he creates any kind of wealth, a share of it belongs to government. He, in fact, creates a fund out of which government is to be supported.

The paramount question, in regard to taxation, is, On what principles shall it be founded? Adam Smith, in his "Wealth of Nations," written almost a century ago, laid down four maxims, or principles, which have been so generally concurred in from that day to this, that, as J. Stuart Mill says, "they have become classic."

I. "The subjects of every state ought to contribute to the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue they enjoy under the protection of the state. In the observation

or neglect of this maxim consists what is called the equality or inequality of taxation."

We accept this proposition, and our first inquiry is, What is meant by "subjects"? We answer, Every inhabitant, old or young, male or female. Women? Certainly: if they have a revenue or income, they are as justly bound to contribute to the government as men, and in the same proportion. Many women have large wealth: why should it go untaxed? Children? There are some such who are millionaires: why should they be exempt? Idiots, lunatics, cripples? Yes, if they have "revenues." Many such persons have large estates, which should contribute to the public treasury. It is not the ability to hear or see or walk that is taxed, but the income, or "revenue."

We next notice the condition mentioned, "as nearly as possible." This implies that it may not be practicable to secure perfect equality; indeed, we know it is not, but such should be the aim of government.

II. "The tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought to be *clear and plain* to the contributor, and every other person."

(*a*) "Certain, and not arbitrary." By this, Dr. Smith evidently meant that the taxes should be assessed by competent authority, and upon fixed and well-known principles.

(*b*) The time of payment should be "clear and plain." The citizen should know *when* he pays; be conscious of the fact that he *is* paying the government a certain sum at the time he actually does it.

(*c*) "The manner and the quantity plain." This for the reasons just stated. He certainly ought to know in what manner he pays, and *how much*.

(*d*) Should be known "to the contributor, and everybody else." In the method of taxation, the people are joint partners: what one does not pay, another must; hence the right of every man to know, not only what he pays himself, but what his neighbor pays. Otherwise, how can he judge whether he is overtaxed or not?

There is nothing, therefore, inquisitorial, or of the character of espionage, in any necessary inquiries in regard to individual property or income; because it is what every tax-payer has a right to know, it is that without which a just distribution of the public burdens cannot be secured.

It is on this account that the publication of tax-lists is a duty on the part of the taxing power. Then, if any property is omitted by accident or design, it will probably be found out; for, being a copartner, each man is interested in the taxes of every other, and will or ought to give notice of any omission or incorrect valuation.

III. "Every tax should be levied at the time, or in the manner, which is most likely to be convenient to the contributor to pay it."

As, for example, when the harvest has been secured, and is ready for market; when the fisherman returns with his "fare," etc. This, though not a very important consideration, will readily be admitted as proper.

IV. "Every tax ought to be so contrived as to take out and keep out of the pockets of the people as little as possible, over and above what it brings into the treasury of the state."

Although the soundness of this principle would seem indisputable, and will doubtless be theoretically admitted by all, yet Dr. Smith proceeds to enumerate several modes in which the opposite result may be brought about.

First. By levying the tax in such a manner that a great many officers will be required for its collection, who will consume a great part of the produce of the tax. This will depend in great measure on the machinery employed in collecting the public imposts.

Second. By diverting a portion of the labor of a community from a more to a less profitable employment. For example, so heavy a tax might be laid on carriages as to reduce their use or consumption to such an extent that the manufacturer might be compelled to go into some other business less productive. This has often been done by unwise legislation.

Third. By attaching such heavy duties as to occasion smuggling, and thus create a multitude of officers to guard the revenue.

Fourth. By subjecting the people to frequent and inquisitorial visits, and interruptions in the pursuit of business and in their domestic affairs, thus causing annoyance and dissatisfaction.

We now add still another principle, which, though not among those laid down by Dr. Smith, has been adopted in every country having any considerable taxation:

V. The heaviest taxes should be imposed on those commodities, the consumption of which is especially prejudicial to the interests of the people.

Having stated the maxims or principles which should govern the imposition of taxes, we now come to consider the different forms of taxation which have been adopted, and, to a great extent, are still in use, by the different governments of the world, in order to ascertain in how far they conform to principles universally admitted as correct.

FORMS OF AMERICAN TAXATION.

Preliminary to an examination of the different modes of taxation, it may be proper to say that there are, in the United States, two general systems; viz., by national and by State authority. The national government has a mixed system, imposing taxes in every form, direct and indirect, except upon the poll. The State governments generally rely upon direct taxation; and the poll-tax is often one of the forms adopted.

Under State authority, counties, cities, towns, and school-districts impose taxes; so, also, parishes and religious corporations: but the latter, generally, only on voluntary membership.

Taxes may first be divided into two kinds,—*direct* and *indirect*. A direct tax is demanded of the person who it is intended shall pay it. Indirect taxes are demanded from one person, in the expectation that he will indemnify himself at the expense of others. Such are customs and excise.

In our further examination of the subject, we

shall refer to the national taxation of the United States, and the State taxation of Massachusetts; selecting the latter State only for being the most convenient, and as representing that of the individual States generally with considerable exactness.

CHAPTER IX.

NATIONAL TAXATION.—I. CUSTOMS.

These are taxes upon importations, and collected through the custom-houses. Government establishes a tariff; that is, a list of duties upon such articles as it deems best: these are paid by the importer before he can get possession of his goods.

Duties are generally of two kinds,—specific and *ad-valorem*. *Specific duties* are imposed by the pound, yard, gallon, etc. *Ad-valorem duties*, as the term imports, are charged upon the value of the goods, as twenty per cent. upon an invoice of silks, hardware, sugar, etc.

In some of the American tariffs, the specific principle has predominated; in others, the *ad-valorem*. There has always been a struggle when the tariff was to be changed; those desiring protection being in favor of *specific*, those of the opposite views contending generally for *ad-valorem* duties. Hence much conflicting legislation.

There are difficulties attending both. If specific duties are laid, they operate with great inequality.

For example, suppose a duty of twenty-five cents per pound upon tea. This would be equal to a taxation of one hundred per cent. on that which cost, originally, twenty-five cents, which the poor man must consume; while the rich, who would purchase tea that cost seventy-five cents, would pay but one-third as much *per cent.* as the former.

In regard to *ad-valorem* duties, the practical difficulty has been, when the rates were very high, to prevent fraudulent invoices. For example, the importer must present his original invoice at the custom-house, and make oath to its correctness. If dishonest, he may, by connivance with the shipper, furnish false papers, showing the cost to be much less than it really was.

Of all modes of raising a revenue, that by customs is confessedly the most effective, and the most readily accomplished; and its great importance, as one of the chief sources of national revenue, demands that we give it a careful consideration.

1. The first principle we laid down was "that all should contribute, as nearly as possible, in proportion to their respective abilities."

As all duties are laid upon articles of general consumption, it will at once be seen that such taxation cannot have an equal bearing, because men are thus taxed in proportion to what they consume, not in proportion to their wealth. The poor man, with a large family, may pay more than a millionaire. Men are taxed in this way according to the mouths they have to feed, and the bodies they have to clothe.

2. In the second place, we inquire, Is "the time and manner plain to the person who pays" this

indirect tax? The farmer who purchases a carriage,—is he aware that he is paying a government tax by so doing? If so, does he know how much he is paying? Does he understand that all the materials have paid duties to government; that the linings, trimmings, and ornaments, the paints and varnish, and the tools with which it was made, have all been taxed; and that he is to pay the sum total with customary profits on the whole? Even if so, can he or any one else easily compute the amount of taxation which enters into the carriage? So of all commodities which have passed through the custom-house: people seldom realize when or how much they are taxed. Then the second principle we have laid down is violated.

3. But we shall not have a full view of the operation of duties on foreign merchandise, unless we take into consideration the fact that they raise the price of the home product, if there is one, to an equal degree with the foreign article, and, in that way, largely increase the burdens of the people, without adding to the public revenue. Suppose, for example, that the whole of a given commodity consumed in the country is 20 millions, of which 5 millions are imported, and the balance produced at home. Suppose, further, that the duty upon the imported article is forty per cent., equal in the aggregate to 2 million dollars. The home product must of course be raised in price to the extent of the duty on the foreign article, and the amount being 15 millions, is raised forty per cent. To ascertain the net amount of the latter, we take a sum to which, if forty per cent. be added, we find

the total to be 15 millions. That sum is $10,714,286. Deduct this last from $15,000,000, and we have $4,285,714 as the difference, or enhanced price, the people have to pay on the home product; and the matter stands thus:

Duties upon imported articles	$2,000,000
Enhanced cost of the home article	4,285,714
	$6,285,714
Of this amount the government gets	2,000,000
And the tax upon consumers	$4,285,000

That is, the latter have paid three times as much as the public treasury has received.

Practically, under our present tariff (1871), the people pay in some instances a much greater difference than here presented.

It is apparent, from this illustration, that the real taxation of a people will depend very much upon the proportion of duties which, designedly or not, are positively protective. On the other hand, if we suppose that the forty per cent. duty were laid upon tea or any other article not produced at home, the government would get the whole amount paid, the people saving upon every 20 millions consumed more than four million dollars. We omit here in both cases all reference to profits paid on duties.

Such is the wide difference betwen duties imposed for revenue and those laid for the advantage of home productions.

CUSTOMS AN EXPENSIVE MODE OF TAXATION.

But, setting aside all consideration of the additional burden of taxation occasioned by *protection*, as just illustrated, we find this system is entirely at variance with our fourth maxim, which was "*that no more should be taken or kept out of the pockets of the people than absolutely necessary.*" This will be seen by the following illustration:

The whole amount of dutiable merchandise consumed in the financial year 1871 was $518,759,518, upon which the duties were $202,446,473. Upon these duties the importers charged their profits as much as upon the original cost, also the jobbers and retailers. The cost of collection we estimate at six per cent.; though including all salaries, charges, and interest in government investments, in custom-houses, etc., the expense is doubtless much greater. The matter will then stand thus:

Whole amount of duties	$202,446,473
Importers' profits 12½ per cent.	25,305,810
	227,752,283
Jobbers' profits 7½ per cent.	17,081,421
	244,833,704
Retailers' profits 15 per cent.	36,875,051
Paid by consumers	281,708,755
Received by government	202,446,473
Extra charge on the people	$79,262,282

Or thirty-nine per cent. over the gross amount received by the national treasury, and forty-five per cent. over the net amount after deducting expenses

of collection. The estimate of profits is at a low figure, less, probably, than the actual fact.

In regard to customs duties, then, we cannot but conclude that, while they are a convenient and prolific source of revenue, they are very unequal and expensive, and little in accordance with the principles of justice and equality.

BOUNTIES.

At this point it may be most proper to speak of the *effect of bounties*. If a home product is to be encouraged by government, it is desirable that it should be done as economically as possible, or in such a manner as to impose the least taxation and loss upon the public, while it shall be as effective as possible in securing the object. It should therefore be accomplished by direct bounties, by paying so many dollars per ton on all ships built in the country; so many dollars per ton on all iron produced at home, etc. By this arrangement the people would pay only the net amount of the actual contribution, while in the form of duties it has been shown that they may and often do pay three or four times as much.

Bounties, as a means of protection, have been but little resorted to by governments. The reason is obvious. The evident injustice of giving to one class of men a premium upon their productions, in order that they may be encouraged in a branch of industry that cannot live without contributions from the public treasury, is so apparent, and evidently unreasonable and unwise, that the people of no country would long tolerate it. It is, therefore, vastly

more feasible to give protection by duties on the foreign article, although far more wasteful and onerous.

EXCISE.

Excise are the opposite of custom-house duties, being laid wholly upon articles of domestic production, and paid first by the producer; and, after the articles have passed through the hands of the merchants, with their profits added, the sum total is paid by the consumers.

This mode of taxation is obnoxious to somewhat the same objections that may be made to customs. Excise is unequal, because falling on rich and poor alike; not in proportion to their wealth, but what they consume. The merchants' profits are not quite so large on these as on custom duties, because home products do not ordinarily pass through as many hands as foreign merchandise. The expense of collection, though only perhaps about half as great, is still a heavy charge upon the treasury. It is, notwithstanding, a very productive source of revenue, and must be resorted to by governments heavily indebted. Domestic manufacturers are not injured by excise duties, unless they so increase the cost of their commodities as to expose them to foreign competition. Profits upon such duties are charged upon commodities as a part of the general expense of their production.

TAXES ON DISADVANTAGEOUS CONSUMPTION.

The principle has everywhere been acted upon by governments that heavy taxes are to be laid on commodities "the consumption of which is especially prejudicial to the interests of the people." This is in accordance with our fifth maxim.

There are two strong and sensible arguments in favor of this kind of taxation. One is that if it should cause a falling-off in the consumption of the articles so taxed, no detriment would come to individuals or the public; but, on the other hand, their moral and social condition would be promoted, and the power of production increased.

The other consideration is, that all those who choose to abstain, as they can do without injury, from the specially taxed articles, will avoid the payment of the tax altogether. Such taxes are voluntarily assumed by those who pay them. This kind of taxation is found to be far more productive, in proportion, than any other, and consumption is less affected by heavy imposts.

The amount raised from liquors and tobacco in Great Britain for the year ending March 31, 1871, was as follows:

Spirits, customs	£4,419,390
Tobacco "	6,613,668
Wine "	1,584,177
Malt, excise	6,978,370
Spirits, "	11,463,899
	£31,059,504

equal to over $155,000,000.

To this may be added a large part of the amount received for licenses, £3,728,769, or $18,500,000.

The amount raised in the United States in 1871 was:

From spirits	$46,281,848.00
From tobacco	33,578,907.18
Fermented liquors	7,389,501.82
Total	$87,250,257.10

The British duty on spirits is ten shillings, or $2.50, per gallon, that of the United States, 50 cents.

When the system of war taxation was inaugurated, $2 per gallon was laid upon whisky. This was a very unwise procedure. Had only 50 cents been imposed at first, there would have been but little illicit distilling, and the government would have collected its dues. Having done this, the tax might have been increased ten per cent. per annum until it rose to one dollar or one dollar and fifty cents per gallon. One-half of the necessary revenue of the nation might, and for the good of the people ought, to be raised from this source alone,—say 150 millions at least.

STAMPS.

There is still another mode of supplying the treasury, viz., by the sale of stamps. This is an important branch of the public revenue in all highly-taxed communities. Stamps are required upon all letters, newspapers, and other matter carried through the mails; upon all bills of merchandise and bills of lading; upon legal instruments of every name and nature; upon patent medicines, etc.

This is cheap and efficient, and as desirable as any form of indirect taxation. Of course it bears unequally upon different classes, and is more or less vexatious, particularly when first introduced; but habit will, after awhile, reconcile the people to it, and it is as little likely to be resisted or evaded as any other form of exaction. It is also collected with very little expense, as no functionaries are necessary. It should therefore be carried out as far as practicable. The British government raises a large sum in this way; eight millions sterling are received for stamps. The United States treasury received, for the year ending June 30, 1870, the sum of $16,544,043.

LICENSES, OR SPECIAL TAXES.

These are granted by both national and State authority, for a great variety of purposes. It is a more economical and convenient mode of raising a revenue than by excise on manufactures, etc., requiring only annual renewal. There is also less opportunity for fraud and evasion. It is therefore a very desirable form of taxation; and the United States government has already availed itself of this mode of raising revenue, to the extent of $9,620,960 for the financial year 1870, and this sum may doubtless be greatly increased in the future.

CHAPTER X.

NATIONAL TAXATION (*continued*).—INCOME TAX.

This tax is in perfect accordance with the first maxim laid down by Adam Smith, that "every man should be taxed according to the revenue he derives under the state," and also consistent with every other principle we have stated. It is "clear and plain" to the contributor and every other person. The income-tax payer knows when and how much he pays; and it can be collected conveniently and economically.

This kind of tax was established in England in 1798, during the wars with Napoleon, but was abolished soon after the close of that struggle. About 1842, however, the government, finding its revenues fall short of the expenditures, restored the tax; and it has been continued to the present time.

This tax was first collected in the United States in 1863, and amounted to nearly three millions; in 1864, to 20 millions; in 1865, to 32 millions; in 1866, to 72 millions; in 1867, to 66 millions; in 1868, to 41 millions; in 1869, to 34 millions; in 1870 to 37 millions.

The above included the income tax upon banks, railroads, insurance companies, etc. The tax upon personal incomes over 1000 dollars yielded, in 1868, 32 millions, 1869, 25 millions; in 1870, 27 millions.

The amount exempted was raised from 1000 to 2000 dollars, and the tax has fallen off largely, and will probably be allowed to terminate with the year 1872, as it will expire at that time.

Yet of all modes of taxation, this is the most just and equitable. Every man *can afford* to pay according to his income, and ought to do so. There is no other *perfect standard* of taxation; none other which does not inflict more or less hardship and injustice.

The tax comes upon the annual private revenue of each year, out of which the government should receive its share for the annual revenue of the state. If the private revenue is increased, so should be the contribution to the public revenue; if the former is diminished, the latter should be also. This is fair and just. Were it to supersede all other forms of taxation, perfect equality would be established; property and labor would bear each its just share of the public burdens. To do this, it would be necessary to ascertain the income of every man; of every laborer, whether his wages amounted to one hundred or one thousand dollars a year; of every professional man; of every operative, male or female; every capitalist, banker, merchant, and mechanic. Upon the gross income, thus ascertained, the general tax should be levied, *pro rata*. In this way each member of the community would be made to pay his just proportion, and, of course, would be obliged to *save* in his expenditures to that amount.

The objection to this form of taxation is the difficulty of ascertaining what a person's income actually is. In the *first* place, it is said that many do not know their affairs so as to be able to state their true

income. There is doubtless much of truth in this; but the very fact that such a tax is certain to be enforced every year will, in a short time, remove this difficulty to a considerable extent, because men will be compelled so to keep their accounts as to know what they gain or lose. The operation of the law in this respect, therefore, is favorable to private interest; since the more intelligent every man is in regard to his affairs, the better for him. Such, we believe, has been the operation of the income tax in England.

Secondly. It is said that some men will be dishonest in their disclosures and statements, and therefore a correct result cannot be reached.

That many men are dishonest there can be no doubt; but, when the law taxing incomes is regularly enforced from year to year, the difficulty of concealment, on the part of the tax-payer, is constantly increasing. His neighbors and competitors in business have an eye upon him, if they believe he is making false statements, and he cannot long escape detection. Besides, as a man *may* be put under oath (and, we think, *ought always to be*), the crime of perjury must be committed with every misrepresentation of his affairs. The immense difference between the reported incomes of the United States in 1864 and those of 1863, even after allowing for the general rise of prices, serves to give an idea of the advance that will naturally be made in the application of the income tax.

The *third* objection made is that men do not always like to have their incomes known. But why should they not? We have already said that, in the

matter of taxation, all are copartners, having a *pro-rata* interest. What one does not pay, others must. All, therefore, may rightfully demand such information as shall furnish the means of assessing a correct tax. There is certainly nothing unreasonable in this.

Estimated Income.—But it may be said that the income-tax principle would not work well in some communities, because a considerable share of its wealth produces no income, and therefore would go untaxed; that this is especially so in the new States, where vast quantities of land are held which yield no rent or income whatever.

But this is a mistaken view of the matter. If these lands are appreciating from year to year,—and, as a general fact, owing to the increase of population, they are,—the income from them is as real as any other; but it is a *deferred income*, which is sure to be realized in the end. All such property, whether in city lots or farms, should, if an income tax only were levied, be estimated yearly, according to its increasing value, and be assessed upon that principle.

An important consideration, showing the justice of the income tax, is this, that, if removed, the amount that has hitherto been raised by it must be thrown upon consumption, and, of course, to a great extent, upon the laboring classes. While laid upon incomes over $1000, the tax fell mainly upon capital. As the capitalist pays no more in proportion to what he consumes of taxed commodities than the working mechanic or day laborer, he ought to pay a tax which shall, at least, in some measure, secure an equality

between him and the laboring man. Hence the removal of this tax would be an act of great injustice to the producing classes, who consume by far the greater part of all commodities upon which customs and excise duties are collected.

TAXATION UPON EXPORTS.

Whenever a people produce more of any commodity than is required for their own consumption, the surplus must find a foreign market, or the production will not be extended beyond the home demand. Anything, therefore, which has a tendency to prevent the sale of domestic products in a foreign market must discourage home industry. Such being the case, what must be, in general, the effect of duties laid upon exports? Evidently to reduce the amount exported, and benefit the *foreign producer* of the articles thus taxed.

The unquestionable effect of export duties is to lessen production at home and give encouragement to foreign labor. This is a general principle, applicable to every commodity of home growth or production, *except such as one nation may have a virtual monopoly of;* that is, may be able to produce in so much greater perfection, or at so much lower rate of cost, or both, that no other nation can compete with it. In that case the exporting nation might impose a duty, which, while it should create a revenue, would not lessen production materially, if at all.

TAXATION OF COTTON.

Many persons are of the opinion that an export duty, or its equivalent in the form of excise, might be laid upon cotton without any detriment to the general interest of the trade of the country, while it would produce a considerable revenue at the expense of the foreign consumers.

It is, then, an important economical and financial question to the people of the United States, whether the peculiar advantages they have over all other cotton-growing countries give them such a monopoly as to enable them to lay an export duty upon it, without any immediate or remote injury to themselves.

The consideration which must determine the question is simply this,—if cotton can be produced in the United States so much lower than anywhere else that the imposition of an export duty, say of two cents per pound, would not affect its sale or the demand for it in other countries, then the duty might be laid, and the whole burden of it would fall on the foreign consumer. The country would gain the entire amount of the excise, and yet the producer be in no degree injured by it. Such a result is possible in the future, since the advantages of our soil and climate are so superior to those of any other cotton-growing region, and the area upon which cotton may be raised so extensive.

The area upon which the successful culture of cotton may be carried on has been estimated at 666,196 square miles, while only 10,888 have as yet been used.

From these facts it will be seen that the raising

of cotton in the United States must eventually be brought to the same general level of profits as other branches of agriculture, and as its price in the markets of the world will be governed by the same law as the price of wheat and similar products, it may come to pass that it may be reduced so low, and yet be as profitable as agriculture generally, that an excise duty might be laid upon it that would advantage the nation to the full extent of its amount, and not in the least injure the cotton grower. The future will disclose whether such shall ever be the result.

CHAPTER XI.

STATE TAXATION.

A GENERAL valuation of all real and personal property is made by the authority of the State, according to which all State taxes are apportioned to each county, city, or town. The municipal authorities then assess the amount allotted them upon the property and polls of their constituents, together with the amount required for city or town expenditures.

Such taxes are direct, and laid wholly on property, except the small amount of poll-taxes. There may be some slight variation in different States from the course we have stated; but it is quite unessential, and does not materially change the grand result. The law makes it the duty of each person to furnish the assessors annually a true invoice of his estate,

and to its correctness he may be required to make oath; and, if any person neglects or refuses to make such inventory, the assessors make one for him, according to their own judgment.

The rate of tax varies from year to year, and is widely different in different towns and cities. Before the late war, the rate in Massachusetts was seldom less than sixty, or more than one hundred cents on a hundred dollars; but such have been the expenditures caused by the war, that few now have a rate less than one hundred, and some have been as high as three hundred and fifty, cents on the hundred dollars.

This tax, if the valuation be fairly made, approximates to justice and equality. It is assumed that every man's ability to pay is in proportion to the property he holds; that his revenue corresponds with his wealth. This may, or may not be true; and, as we shall have occasion to show, there are circumstances which disturb, to some extent, the equal operation of this tax.

And here we may notice some of the objections to this compound system of poll and property taxation. Poll-tax payers vote directly upon the public appropriations, yet they have no personal interest whatever in the amount of expenditures. No matter whether a proposal to expend money is wise and necessary, or frivolous and wasteful, the poll-tax payer can vote for it with entire impunity. It is nothing to him whether the sum be one thousand or ten thousand dollars. Indeed, the influence of poll-tax payers is often in favor of the most lavish expenditures. A new road, for example, is proposed in town meeting. It may

be quite unnecessary, and ought not to be made; but the poll-tax payers, a large share of whom are laborers, will be immediately benefited by the demand that will be made for labor, and will be very likely to be in favor of it. It needs no argument to show the bad effects of such a state of things, regarded only in an economical point of view. If men may vote away money in the payment of which they have no interest, is it likely to be done to the advantage of the public? Is it not certain that there will be unwise and reckless expenditures?

This false position of the poll-tax payer has attracted the attention of those who are narrowly watching the effects of equality of suffrage without equality of taxation. The result of popular votes during the civil war, by which immense, and often quite unnecessary, burdens were imposed upon towns, has caused no small anxiety among those who have noticed the natural consequences of giving to a class numerous and powerful, at the ballot-box, the power to impose taxes upon the public, from which they are themselves exempt.

On the other hand, the poll-tax payer, while he contributes heavily towards the national expenditures through customs and excise, has no direct vote in regard to them. He can vote where his own interest would lead him to vote wrong, but has no power to vote directly where his interest would lead him to vote right.

The *income-tax* principle, if universally adopted, while it would doubtless relieve poll-tax payers of a part of their present taxation, would, at the same time, bring their interests into harmony with those

of property-tax payers, and thus promote the general welfare of the public.

It hardly need be said that this form of taxation is not in accordance with the maxims laid down by Adam Smith; those who pay it not having equal ability, or enjoying "an equal revenue." It is a tax founded on no sound principle whatever, and, if it were the *only* tax imposed, would be as unjust as a tax could well be. It forms, however, only a part of a system which must be looked at in all its bearings, in order to form a correct judgment of the operation of this particular tax, which by law is a limited one, determined by State legislation. In Massachusetts, the maximum poll-tax is now fixed at "not over two dollars," but may be, as it has been, changed from time to time. It has never, we believe, been higher than at present.

The property- and poll-tax being the two modes by which all revenues are raised by the individual States, we will look for a moment at their operation as between the different classes upon which they are imposed. To do this, we refer to a valuation and tax list before us, and find the following examples:

B. H.—Buildings and 45 acres of land . .	$1000		
Stock, etc.	345		
	$1345.	Taxes,	$15.47
		Poll,	2.00
			$17.47
T. G.—Buildings and 43 acres of land . .	$1500		
Stock	238		
	$1738.	Taxes,	$19.99
		Poll,	2.00
			$21.99

L. G. S.—Buildings and 56 acres of land .	$1200		
Stock	300		
	$1500.	Taxes,	$17.25
		Poll,	2.00
			$19.25

Average property, $1528. Average tax, $19.57.

We here find that these small farmers pay $19.57 each, equal to nine and a half times as much as the poll-tax contributors. Does any one suppose that the incomes of the former are *nine and a half times* as great as the latter? Let us test the question.

Suppose each of these farmers derives a *net* income of ten per cent. on his capital, over all outlays and repairs, and that his labor is worth to him five hundred dollars per annum. This is a large allowance:

Land and stock, as above, at ten per cent.	$152.80
His own labor equal to	500.00
Total income	$652.80

Now, we will assume that the exclusive poll-tax payers have an average income of four hundred dollars. We include in this list not only all common laborers, but skilled workmen, mechanics, and others whose labor is worth, under a sound currency, $1.50 to $3 per day, and also all clerks, and others whose salaries are six hundred dollars and under. Then if these classes average four hundred dollars per year, it will appear that while the income of the poll-tax payers is charged $2, these small property holders are charged $19.57, or six times as much as they ought in proportion to pay.

A recent return made to the Legislature of Massachusetts showed that there were in the State

112,000 persons who paid only a poll-tax, and that a majority of the voters in some of its chief cities were of this class, and had, of course, the power by their votes to determine the financial policy of the cities in which they lived.

Effect of the Two Systems.—We are now able to compare the results of the two different systems, viz., national and State taxation. In the national, we find that the greater part of all taxes are indirect; the State and municipal taxes are, with slight exceptions, direct. The former fall almost wholly on consumption; the latter, upon property. The first is unjust to labor, or the non-property-holding classes; the other is unjust to capital, or those who hold taxable estate. One operates as an offset to the other. Neither is just in itself, nor does the action of the two systems conjointly establish perfect justice, but it approximates as nearly to it, perhaps, as any system of taxation likely at present to be adopted.

TAXATION OF CREDITS.

It has sometimes been maintained that credits ought not to be taxed, but all assessments be made upon values, or property, personal and real. Taxes, it has been argued, ought not to be laid upon persons, but upon that out of which they can alone be paid, viz., property.

But credits are taxed as well as values. A holds a farm worth $10,000, mortgaged to B for $5000. A pays taxes upon the whole valuation, and B upon $5000, as money at interest. A, it is said, is doubly taxed. This is a practical question that has often

puzzled legislators. Let us, therefore, carefully examine it.

Suppose A and B aforesaid form an entire community, and that the whole tax of $150 is imposed on property. The whole valuation will then be $10,000 (A's farm), and the rate one and a half per cent., which A pays, and B goes untaxed. We will now change the principle, and have both property and credits taxed. The valuation will then be, A's farm, $10,000, and B's money at interest, $5000; total, $15,000; and, with the same amount to be assessed ($150), the rate will be one per cent., of which A pays one hundred, and B fifty, dollars. So, then, we discover that A is not doubly taxed, as assumed, but at the worst pays only twenty-five dollars, or one-third more than his share. Such must, in principle, be the result of this kind of taxation, taking a whole community together. All the amount taxed upon credit is so much relief to taxation upon property. This seems to be clear; and the justice of the thing is established by the fact that A bought his farm knowing that it would be subject to a full taxation, and bought it cheaper, as we have shown in another place, on that account. B, on the other hand, accepted his mortgage on the same ground, knowing it would be subject to tax on the common valuation. Is either party, then, wronged?

But perhaps another reason may be given why A should pay taxes upon the whole value of his farm; viz., that, having the usufruct of the whole, he is entitled to all the profits on the farm. "But he don't own the whole of the farm." True, that is his misfortune; if he did, he would obtain a larger amount

of net profits; but his obligation to pay tax on the whole is not impaired because he has the use of a part of B's capital. As the owner of the farm, A has a chance for all the profits that can be made from the whole, while, by the taxation of B on the mortgage, the former saves a part of what he would otherwise pay in taxes. One pays taxes for the profits of business; the other, for the income on his capital.

In this case we find another very clear illustration of the correctness of the *income-tax* policy. If there were no other tax than upon income, the matter would stand thus:

A's amount from his farm, say	$900
He deducts the interest he pays B	300
A pays tax on his net income of	600
B's income is taxed as	300
Total income to be taxed	$900

Amount to be raised, one hundred and fifty dollars; of this, A will pay one hundred dollars and B fifty, and there would be no question as to the justice of the system by which both were thus taxed. If A's income should be more or less than nine hundred dollars, he would pay more or less, and B must pay less or more accordingly.

In the absence of the income-tax principle, what can be more equitable and just than the practice of taxing both mortgagor and mortgagee? If the former were allowed to deduct from his inventory the amount he owed the latter, it would often happen that, the mortgagee not living in the same town or State, so much property would escape taxation

altogether. This in some communities, especially our Western States, would be a great evil. That much hardship may often result from taxing credits as well as property is undoubtedly true; but that only affords additional evidence that the income-tax principle is the only correct one. Next to this would be the levying of all taxes upon property exclusively; and if adopted at the very commencement of a social organization, as at the landing at Plymouth in 1620, it would secure a just taxation, because all property would be created, held, and transferred under that well-known condition.

OUGHT GOVERNMENT BONDS TO BE EXEMPTED FROM TAXATION.

The national securities are exempted by Congress from all taxation by State and municipal authorities. Is this a wise and just policy

The present debt (1871), if all funded, would amount to about $2,300,000,000; at a low rate, the interest must be about $125,000,000, and so much of annual income must, of course, escape taxation. This, in many cases, would cause a very unequal distribution of the public burdens. For example, in a community where, as is often the case, the chief wealth is in the hands of a few persons who have succeeded in placing their funds in the national stocks, the favored ones can vote for the most generous appropriations for any kind of public improvements, and yet not be assessed a dollar for the expense of making them. The poorer class of freeholders, with their estates, perhaps, encumbered by

mortgage, find themselves taxed for every acre of land, every horse, cow, and sheep they own, while their rich neighbor is taxed upon nothing, because he holds his property in United States bonds. It is certainly very natural that those who are thus taxed should feel themselves greatly wronged. They do not see why the bondholder should not pay as well as the landholder.

Setting aside all considerations of justice, and regarding the matter only in an economical point of view, we can perceive that by this exemption the bondholder escapes his proper share of taxation, and consequently may spend in luxurious gratifications the amount he ought to contribute to the public charges, while the less fortunate citizen, being obliged to pay more than his true share of the public expenditures, must deprive himself and family of many things needful to their welfare and happiness. One is made richer, the other poorer, than he ought to be. This result cannot be for the public good, and the glaring injustice thus inflicted becomes apparent to every one. Hence the very general disapprobation with which this policy is regarded.

The apology for all this is the plausible argument that if the bonds were not exempted, States and municipalities might impose such taxes upon them as to render them comparatively worthless, thus depriving government of the means of raising funds by the issue of its bonds. That this is but a specious objection may be seen from the consideration that, to prevent the possibility of such a result, Congress has only to provide by law that none of its securities shall ever be subjected to any higher rate of taxation than what

is imposed upon all other property, personal and real; that they shall be placed in general valuation lists for taxation, and be assessed at a uniform rate.

The objection that the national government would be obliged to pay a higher rate of interest, say six, instead of five per cent., in consequence of this, has no sufficient foundation, because the State governments and municipalities would gain the difference by their increased valuation; and, what is more important, justice would be secured to all parties concerned. Each community would have its legitimate resources for taxation. The rate of interest paid by the general government is far less essential than the equality of the general taxation by which all public expenditures, national, State, or municipal, are provided for.

With a single question we close the argument:

If the government of the United States can negotiate its bonds abroad, say at five and a half per cent., and, at the same time, makes an exemption of all local taxes upon the same, equal to at least one and a half per cent. more, in consequence of which the bonds are taken at home instead of abroad, do not the several States lose in their revenues the full amount of the exemption, without any advantage whatever being gained by the national government?

CONVERSION OF THE NATIONAL DEBT.

We assume the national debt on the 1st of January, 1872, to be $2,300,000,000, and that the annual interest hereafter will average at the rate of five and a half per cent., payable semi-annually.

This is a liberal allowance for interest, since it is sufficiently certain that the debt may be consolidated at the rate of five and a half per cent. interest or less, and of the principal, the sum of 400 millions at present bears no interest at all.

With such data, we say that should Congress appropriate the sum of $150,000,000 annually for the payment of the principal and interest, the whole debt would be liquidated at the end of thirty-three years and ten months, or during the year 1905.*

The interest actually paid the last year was, in round numbers, $125,000,000. In order to clear off the debt, it would only be necessary to pay 25 millions annually more than we must certainly pay while the present debt lasts.

The precise burden, then, which the country will assume if it undertakes to free itself from its present indebtedness, is the payment of 25 million dollars annually; no more, no less.

That a national debt is an unmitigated evil, a constant drain upon the public treasury, a continual expense for its management, an unceasing source of official corruption, and a certain cause of weakness and danger in case of war or any unlooked-for calamity, is quite too obvious to need proof: we therefore turn to the consideration of the practicability of liquidating it, and the benefits that would result from such a measure.

1. *Its practicability.*—If the payment, as we have seen, of 25 millions each year will secure the extin-

* For this computation we are indebted to the kindness of E. B. Elliott, Esq., the able statistician of the Treasury Department.

guishment of the debt in thirty-three years and ten months, and we assume that the population in the mean time was but 40 millions, we shall find that the annual tax per capita would be but *sixty-two and a half cents*, equal to one and a quarter cent per week to each inhabitant. But instead of 40 millions we may be sufficiently certain that the average number during the whole time will be 50 millions, reducing the contributions to one cent per week.

Such would be the extent of the effort required to discharge the public debt within the period mentioned. Can any reasonable man doubt that the people of the United States can make this effort without any distressing sacrifice or painful self-denial? that they can *save* the almost infinitesimal sum we have indicated without any disturbance to the trade and industry of the nation?

2. *Results of paying the debt.*—Although thus easily accomplished, the result of doing this would be no less than the conversion of $2,300,000,000 of mere debt, which produces nothing whatever, into capital that would of necessity be employed in the active industries of the nation; because, as the bonds were discharged from time to time, those who had held them (as all do as a source of income) would, of course, seek some other mode of investment, and railroads, manufactures, commerce, and agriculture would be benefited to the full extent of the additional investments thus made in them; consequently the productive power of the nation would be enhanced by this increase of its resources to the extent of over two thousand millions of effective capital.

If it be urged as an objection to this view of the

subject that a considerable part of our national debt is held abroad, and therefore the payment of it would prove injurious, it may be replied that when that part of the public debt were paid off, a large share of the amount would undoubtedly be reinvested in this country in the various State and railroad stocks and bonds that are sure to be in market; if not, and the funds necessary to meet them were remitted to Europe, the practical effect would be to restrict, for the time being, the importation of foreign commodities, a result by no means undesirable under such circumstances.

In whatever way we regard the proposal for a gradual but certain annihilation of the national debt, it must be apparent to all intelligent minds that its conversion into business capital will be the result, and the nation be greatly benefited thereby.

CHAPTER XII.

FOREIGN INDEBTEDNESS.—I. ECONOMY OF FOREIGN INDEBTEDNESS.

Pecuniary obligations, between different nations, may be of four different kinds:

1st. *Individual Indebtedness.*—This can only be of limited and temporary duration, since it must soon be paid or wiped out by insolvency.

2d. *Corporate Indebtedness.*—This is of two kinds: (*a*) the bonds or other obligations of incorporated

companies formed for industrial purposes, the building of railroads, etc.; and (*b*) the bonds of municipal corporations, cities, towns, and counties. These have been issued to an enormous extent in the United States, and a large amount have been disposed of abroad.

3d. *State Indebtedness.*—Nearly all the States of the American Union have contracted debts and issued coupon bonds, which, to a considerable extent, have been sold abroad. These rest upon a different footing from the preceding, since they cannot be enforced by any legal process. They are secured only by the honor of the promisor.

4th. *National Indebtedness.*—Great Britain has a debt, as heretofore stated, of eight hundred millions sterling; but it is almost entirely held at home. The rate of interest on her consols is only three per cent., and there is little inducement for capitalists in America to invest in them; but it is quite otherwise with the United States. Interest here is at least six per cent. on the best securities.

It is generally estimated that about one thousand millions of the bonds of the United States have gone to Europe.

II. THE EXPORTATION OF PUBLIC STOCKS.

Whether the sale of such stocks abroad is desirable or not, will depend entirely upon the character of the commodities sent in return for them, whether these be for advantageous or disadvantageous consumption; and this again will depend upon the financial and commercial condition of the country

from which they are sent. Suppose one hundred millions sent to England, and returned in railroad iron, which, put into use, pays a net income of ten per cent., besides facilitating the transport of cotton and wheat, and thus adding to the national wealth. As these stocks pay the American holders but six per cent., and by selling them and investing the amount in railroads they get ten, there is a clear gain *in income* of 66⅔ per cent. The foreigner, on the other hand, who could only get four per cent. for his money in home investments, now gets six, an improvement upon his income of fifty per cent. Both parties are benefited. On the other hand, if the amount sold were returned in fancy goods, jewelry, etc., which increased the consumption of luxuries, but in no way contributed to reproduction, the country would in a short time be poorer to the whole amount. The foreigner would hold his bond, and get his interest, but the American would have nothing to show for it. Or stocks may be exported in payment for an actual balance of trade. If, with all our export of commodities and specie, there still remains an adverse balance, American stocks of one kind or another may be sent and sold to adjust it. By this last operation the debt is merely "extended" or postponed; and as the interest upon this must be annually paid, a larger export of commodities, specie, or stocks must be made in the future.

FALLACIES RESPECTING FOREIGN INDEBTEDNESS.

No sentiment or opinion is more common, perhaps, among the people, than that it is very unde-

sirable, or dangerous even, to have the national debt held abroad. Is this opinion well founded?

1st. A debtor cannot always choose who his creditor shall be. If deeply involved, those will hold his securities who are most able to hold them. They will, like commodities, go where they are most wanted, where they will bring the highest price.

2d. It makes little difference to the debtor, if he can meet his obligations when due, who may hold them. There is no friendship in trade. Native or foreigner will alike demand his pay, when he has a right to do so.

If these propositions are true, we see that it is quite impossible to prevent foreigners from purchasing our national securities, and of little importance if we could. It is a great misfortune that we are deeply in debt as a nation. If that indebtedness were wholly to our own people it would be quite favorable; for then, *as a people*, we should owe nothing at all, since what was to the debit of one citizen would be to the credit of another; but if this cannot be, and if capital is worth more to us than it is to others, then is it not fortunate if others are ready to loan us theirs, that is, are ready to take our public indebtedness? As an admitted fact, the use of capital is about twice as valuable in the United States as in England: why, then, should we not allow Englishmen to hold our public debt?

A foreign loan to the United States government of one hundred millions in the latter part of 1861 would have saved the country several hundred millions, inasmuch as the suspension of specie payments

might thus have been postponed for a twelvemonth, and, perhaps, even been avoided through the war. By this means the prices of all the government had to purchase would have been kept down to the natural standard. This measure, if accompanied with the expulsion of all bank currency from circulation, and with the issue of government notes to take their place so far as desirable, would, in the end, have saved a great part of the present national indebtedness.

From whatever point of view we may look at the subject, we find there can be no well-founded objection to the sale of American stocks in Europe. On the other hand, such a sale of them must be advantageous, *when made under a sound currency.*

FALLACIES RESPECTING A NATIONAL DEBT.

1st. *That a national debt is public wealth.*

"The funded debt of the United States is, in effect, the addition of three thousand millions to the realized wealth of the nation. . . . It is three thousand millions added to its available capital."*

If this is so, it is fortunate, so far as the financial condition of the country is concerned, that the Rebellion took place; that it continued so long and cost so much. Had it lasted long enough to have made the debt tenfold greater than it now is, the "available capital" of the nation would have been correspondingly enlarged; and, of course, its power

* See pamphlet issued by "Jay Cooke, General Subscription Agent for the Sale of Government Bonds," entitled, "How our National Debt may be a National Blessing." Philadelphia, 1865.

of production so much increased. It must be a misfortune, economically considered, that the war closed so early. But let us examine into the truth of the assertion that "a national debt is public wealth."

How was it created, and for what?

It was contracted for war expenditures. The operation was simply this: A certain part of the people, having the ability to do so, furnished the nation with the means to carry on the war. These persons became the creditors of the government, and they now hold the public stocks. All the rest of the people are debtors, and jointly owe the amount of the debt. It is a lien upon estates, personal and real, and must remain so until liquidated. Are those who are the debtors to the bondholders any richer in consequence of the existence of the public debt? Certainly not: they are just so much poorer. They must subtract from their incomes, each year, so much as they have to pay for interest on the national debt. Are the bondholders any richer in consequence of the creation of this debt? If they actually loaned money, that is, coin, as some did in 1861, for which they are receiving only the usual rate of interest, they are neither richer nor poorer for the operation. They have got public, instead of private, securities for their funds. If they subsequently loaned mere credit currency, or capital at prices advanced in consequence of the depreciation of the currency, then, in so far, they gained what the government lost, or, rather, what that part of the people lost who must pay the debt and interest. There was no

increase of wealth in consequence of the increase of prices, but merely a transfer of commodities from one party to another, without an equivalent.

But "the national debt is public wealth." Then it follows that if the national debt were repudiated, the nation would be poorer by its full amount. Is that so? Surely not. The holders would be poorer, doubtless, by the amount of their bonds, which entitle them to interest semi-annually, and final payment in gold; but just what they lost their debtors, the public, would gain, and the general wealth of the nation would not be affected to the amount of a dollar, except that in so far as the debt was due to persons abroad, the repudiation of it would save that amount to the nation. Other than this, neither the security nor the insecurity of the national debt has the least effect in determining the national wealth.

2d. But, again, it is said that "*the debt is active, available capital;*" and, in illustration, it is said "that a man having, say, twenty thousand dollars of the bonds, can engage in any kind of business at once, just the same as if he had so much cash capital."

Now, what is the fact? The bonds being good securities, the holder can exchange them for cash, and with this can obtain any description of capital he may need. The bonds, then, are not capital, but only the security upon which capital may be had. If the holder had notes against individuals of unquestionable credit, he could do the same. Are private notes, then, capital? Surely not.

So far from aiding production, a national debt has an effect directly opposite. It depresses industry by

the taxation it imposes, and reduces its power to compete with other countries.

3d. The third fallacy is, *that a public debt gives stability to government.*

Upon what should the security of a government depend? Evidently upon the convictions of the people that it is a good government; that it secures to them life, liberty, and the pursuit of happiness. Any people who know they have such a government will need nothing to assure their loyalty and attachment. Where government rests upon universal suffrage, the power is wholly in the hands of the people, and no law or constitution can have any permanency that does not receive their approbation. Anything that is regarded as oppressive and unjust will certainly be abolished.

France has a large national debt; yet her government has been revolutionized time and again without any reference to that fact, and without at all disturbing the security of the rentes. National debts will be paid, if the people please to pay them; and governments will be sustained, if the people choose to sustain them.

Besides, it is, and always will be, true, that the number of those who have neither direct nor indirect interest in the public debt is far greater, probably five to one, than those who are interested as holders of the stocks, or depositors in savings banks who have funds invested to some extent in the public securities; and, in a great majority of cases, those who are thus indirectly interested are so only to such a limited extent that they would be actual gainers if the debt were repudiated, since they

would gain more from their consequent exemption from taxation than they would lose by the non-payment of the national debt.

4th. A fourth fallacy is that a national debt insures protection to home industry, since the heavy taxation it causes will, if laid on foreign goods, secure that object. Having already discussed the question of protection, we need not now enter upon it, but remark that a large national debt does not make it certain that there will be a high protective tariff. Great Britain has the largest debt of any nation in the world, yet she has abandoned her protective system. She has become satisfied that such a luxury is too great a hinderance to her commercial prosperity, too heavy a burden upon her home industry.

5th. But, again, it is said that a national debt is desirable as a basis for a national currency. That this is an idle assumption we have already endeavored to show. No such foundation is needed for any currency which the good of a nation demands. It is a false and pernicious system which requires any connection with national indebtedness. Debt is no sound basis for banking. Banks should be created to loan capital that exists, not *debt* for capital that has disappeared.

6th. We will briefly notice one other fallacy in regard to a national debt; viz., that the generation which contracts it is under no obligation to pay it; since, having been contracted for the good of the country, posterity ought to share, at least, the burden of it. What is the principle involved in this statement? Clearly, that one generation has the

right to create a debt for such purposes, and to such an extent, as it deems best, and impose on another the payment of the whole, or of such part as it does not choose to discharge out of its own resources. Can this be so? Would it not follow from this that one generation has the right to enslave another, since, if it can impose a tax, it can enslave? for, to the extent of the tax, it is slavery, or labor taken without compensation. Suppose the tax carried to such an extent as to consume all the products of the laborer over that which is absolutely necessary to existence. If the present generation may lay a tax of ten dollars on each producer for all time to come, it may lay one of a hundred dollars, or a thousand. If it may take away a fourth of a man's income, it may take a half, or why not the whole? The right to tax posterity at pleasure is the right to establish a most terrific despotism; and yet this is one of the popular sophisms of the present day.

CHAPTER XIII.

RISE AND GROWTH OF THE MODERN FINANCIAL SYSTEM.

No large national debt has ever been paid, or in any way discharged, except by repudiation. The debt of the old French monarchy was wiped out with the "assignats." The debt incurred in the American Revolution vanished in worthless "con-

tinental money." The present debts of England, France, Austria, and other European countries are so large, the constantly-increasing demand for more extensive and costly armaments so pressing, so absolutely overwhelming, that the hope of any payment of the principal cannot be reasonably indulged.

That general system of finance, of which national indebtedness forms so important a fact in its influence upon the industrial interests of mankind, deserves a careful consideration.

When William of Orange succeeded to the throne of England, Louis XIV., then at the zenith of his power, refused to acknowledge him as a legitimate monarch, and espoused the cause of the exiled Stuart. War, of course, followed. But fighting, in consequence of the invention of gunpowder, and the changes it gradually introduced into warfare, had become a costly indulgence; a game which kings, with their limited and uncertain revenues, could ill afford to play at, particularly for a great length of time. War with one so powerful as the *Grand Monarque* could not be safely commenced or successfully prosecuted, while every penny must be extorted from a reluctant and now independent Commons, and the taxes immediately assessed on the large land or other property holders of the realm.

Such was the difficulty which King William encountered; but, fortunately for his fame, he was a shrewd financier, as well as an able soldier. Up to this time, England had never had a permanent organized national debt, a national bank, or any regular and reliable system of revenue. Grants and subsidies had been voted occasionally; duties and

special taxes had been imposed; but these were not to be depended upon.

The monarch might and did borrow money from time to time, in great emergencies, but on the most disadvantageous terms. The credit of the government was always low, because there was no regularity or system in the public finances. Men had no confidence in the responsibility or punctuality of the government. William changed all this. He borrowed for a specified period, and promised the punctual payment of the interest semi-annually, and the principal when due; and pledged "the public funds" for the fulfilment of his promises.

He negotiated loans and issued stocks. He granted annuities, upon the payment of specific sums. Interest and principal were secured by a pledge of the public funds, or revenues derived from specific sources. This put a new face upon the financial affairs of England: but something further was desirable; viz., an agency by which the national debt would be readily managed, and its semi-annual interest promptly paid. This was accomplished by the incorporation of a national bank, consisting of the holders of the public stocks, to the amount of £1,200,000.

One thing more was wanting; viz., a permanent and sufficient income, to meet not only the interest on the accumulated debt, but the current expenses of the government, already large, and constantly increasing. To effect this, a land-tax was established; small, indeed, in amount, and upon a *fixed* valuation, so that it could not be increased with the increasing value of the land.

A tariff of duties on all imports was also introduced, and an excise laid upon all home manufactures and products. In short, a system of *indirect taxation* was adopted, far more general and effective than any which had before existed.

Thus was completed the grand triad of the system of finance, inaugurated by the English Revolution; viz.,—

FUNDING, BANKING, AND INDIRECT TAXATION.

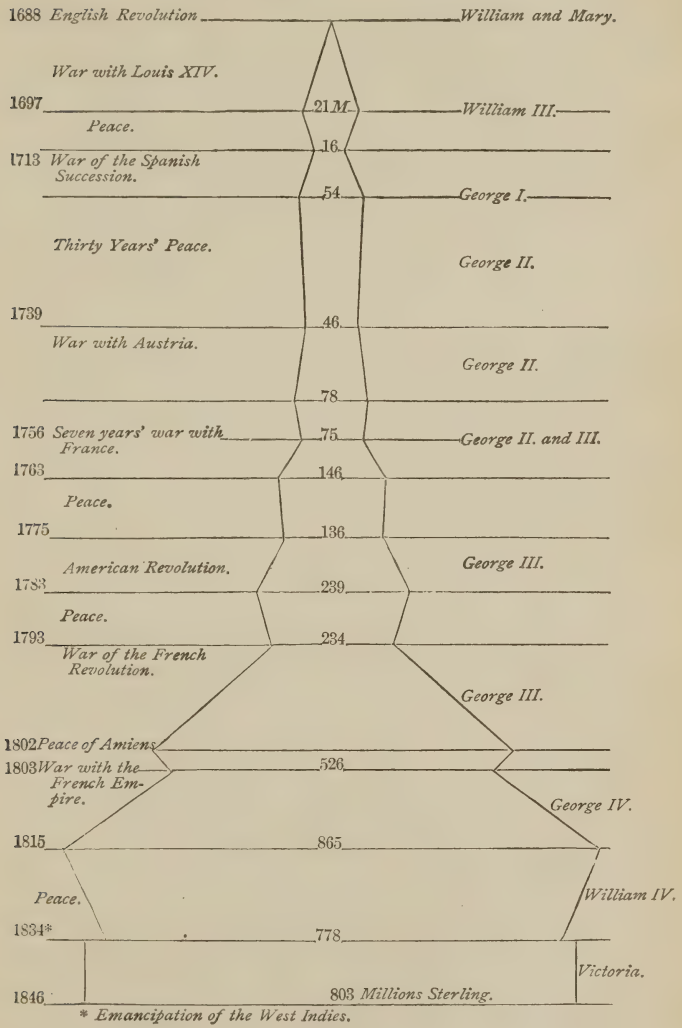
The immediate, as well as ultimate, results of the new financial policy are alike remarkable and worthy our attention.

1st. The credit of the government was now firmly established. 2d. It could carry on war by borrowing money instead of imposing taxes. 3d. This removed the fear of oppressive taxes upon the landholders and other wealthy persons, because the larger part of the taxation fell upon the masses of the people, who were obliged to pay not in proportion to property, but consumption. The new policy was especially acceptable to the aristocracy, who at that time even more than now monopolized those public offices whose emoluments and patronage were increased by the increased war expenditures of the government.

In the subjoined diagram, we have an exact and comprehensive history of the British national debt, in its origin and progress. And the history of this debt is the history of every other national debt. All have originated in war, have grown by successive wars, and have not been discharged in time of peace,

DIAGRAM N°. 6.

Rise and Growth of the British National Debt.



* *Emancipation of the West Indies.*

because the nations involved in them have squandered their resources in preparations for future wars.

Hence this diagram, in all its essential features, represents them all with equal correctness.

In connection with this policy of permanent national indebtedness, and the system of funding, indirect taxation, and paper-money banking growing out of it, we now turn to consider

THE RESULTS OF THIS FINANCIAL SYSTEM.

1st. *An immense extension of the war system.* Prior to the introduction of this policy, standing armies and armaments were exceedingly limited. Now all Christendom is armed, by land and sea.

2d. *Universal and constantly increasing indebtedness.* This is true of nearly every country in the world. England, indeed, has not increased her debt for the last thirty years; but almost every other government has been borrowing money from year to year, until many of them are as much burdened by their indebtedness as England, because, in proportion to their wealth and resources, they are as deeply involved.

3d. *Impoverishment of the masses.* This is especially apparent in England. What has become of that YEOMANRY, once the pride of the country? Their little estates have disappeared, have been swallowed up by the terrible system of taxation to which they have been subjected. The pleasant hedges which still surround the small inclosures, once constituting the freeholds of her yeomanry, may yet be seen in all parts of the country. They are the monuments

of an industrious, brave, and independent class of men, now extinct. These lands are indeed tilled by the hands of their descendants, no longer yeomanry, but peasants, almost the paupers of the nation. How strikingly true this is may be seen in the fact that there are but one-third as many "holdings" at the present time as one hundred and fifty years ago, while the wealth and population of England have doubled many times.

The economy of a national debt, under the modern financial system, must always impoverish the productive classes. Its entire influence on them is oppressive. It deprives them of their honest reward by a false currency, which robs them of a large share of their nominal wages; it imposes upon them, through indirect taxation, an undue proportion of the public burdens, and is, in fact, a stupendous enginery for depressing them, though perhaps not so intended.

CHAPTER XIV.

ON THE LAWS OF INHERITANCE AND BEQUEST.

Men die, and the property they had acquired or held during their lives must pass into the possession of others. May the person who is about to leave the world say to whom his wealth shall immediately descend? May he go further, and say to whom it shall descend for all coming time? May he go

further still, and determine what specific use shall be made of his wealth forever? Or shall the laws of the State decide the questions,—to whom, for what purposes, and for how long, the wealth of deceased persons shall descend? Does the world and its wealth belong to the living or the dead, or to both in common? If to both, what portion should belong to each? Which party, the living or the dead, will most intelligently decide how wealth can be advantageously employed in production, or in any other mode, for the benefit of the living?

These are the points involved in the subject of Inheritance and the testamentary disposal of property, and are important in an economical point of view, irrespective of all other considerations. These questions have been practically decided by the laws and institutions of society in different ages and countries. Governments have always interfered in regard to the estates of deceased persons to such an extent as to prescribe limitations and conditions. So far as these have been in harmony with instincts of humanity, and the laws of value, they have been beneficent in their operation. But all the wealth, all the institutions, all the interests of society, should ever be regarded as fully under the control of the existing generation of men. This should be a fundamental principle in civil polity; and, if law may interfere in this matter at all, it may do so to any extent the public interest shall demand.

It has been said that nothing is more unwise than to attempt to bind posterity with parchment; and the more enlightened the public mind becomes, the

more apparent will be the utter folly of allowing the past to govern the present.

In some countries, the laws have not only provided for the manner in which wealth *may be* disposed of by testamentary provisions, but have often ordained that certain estates *shall be* inalienable. Thus, the landed property of a people, seized by violence, has been made a perpetual inheritance to the favored parties and their descendants forever. This class of persons has often been invested with the powers of government; and class legislation has strengthened and increased what force or fraud had achieved.

So far as a class, more or less strictly limited, or highly distinguished, reaches a position of property or influence by moral perfections, by high intellectual endowments, or by successful business operations, agreeably to the laws of wealth, and under the test of ordinary competition, it is not taken out of the principles heretofore laid down. But so far as it has been placed arbitrarily in the possession of large proprietors, and maintained so by thwarting the action of natural laws, it is by that removed from the primitive rule of distribution, and requires to be separately considered. We shall regard it only from an economical point of view.

By an order of things in which we see great benevolence, no family or class is able permanently to secure the integrity of its estate. Otherwise, property would tend to aggregate itself, so as to crush competition, and leave the greater part of the world destitute. As it is, the foolish son dissipates the gatherings of the wise father, and alienates the lands that have been annexed, acre after acre, by

prudence and frugality. A single break in the succession of industry and economy will scatter the accumulations of ages. *This liability of the rich is the property of the poor.* Just as surely as the lapse of ages wears down the craggy mountain-tops to form the soil of the humble valleys, so surely do aggregations of wealth gravitate every hour to the general level.

To contravene this provision of nature, the law of the land often shuts in these estates by arbitrary enactment or judicial interpretation, and so keeps out the busy, unrelenting competition, which otherwise would, sooner or later, bring the proudest structure to the ground. All such legal arrangements may be summed up in—

THE LAWS OF PRIMOGENITURE AND ENTAIL.

1st. Of the rightfulness of such laws.

In the order of nature, no man brings with him into the world a store of wealth for his subsistence and support through life, or finds it waiting especially for him. His means of livelihood are to depend on the inborn faculties of appropriation, on the store of wealth already existing from which these may draw, and on the natural agencies of production which they may employ. But if the latter conditions are removed, and the man is forbidden access to the fields of labor, he is condemned to be destitute, in a greater or less degree, no matter how well endowed, or how fully he obeys all economic laws. With these open to him, he is certain of success. It matters not at all, that all the wealth of the world

is now taken up, that every inch of ground is possessed. Though utterly without legal claim, he is yet, in his faculties of industry and appropriation, sure to become the owner of some part of it, at least sufficient for his wants.

In the state of nature, man enters on life, feeble and destitute, but with powers of absorption and assimilation. These, not human charity or human justice, award the world's wealth, and sustain the lives for wise purposes created.

Injustice and mischief are done by laws of primogeniture and entail. So far as they operate, they shut off the industry of the world (and the wants which that industry must supply) from its proper field. We have said that the liability of wealth to dissipate is the property of the poor. It is so. A man entering the world may have no claim to any share of its previous gains; but he *has* a claim to a *chance at them*. This is the provision nature has made for his maintenance. This is his inheritance. He has a right, at least as complete as the plant, to get his growth and his support out of the soil about him. There is nothing in this view agrarian or communistic. It admits that property should be sacred; but it asserts that it should be alienable. The right of property does not include the right of the wise to get wealth, and of fools to keep it. To shut up any part of the world, for the benefit of one, is to rob all others, not of it, but of their chance to acquire it lawfully. A system of entail dwarfs all existing industry, so far as it operates.

2d. But, besides the general objections to such a system on the grounds of justice, we meet cer-

tain considerations of expediency that deserve notice.

(1) The capital thus kept together by laws forbidding alienation is often so large that it cannot be managed by individuals for the best economic advantage. Of course, a government might provide for the preservation of properties not excessive. But it is not such that have been made perpetual; and there can be no occasion to lock up, in this way, moderate estates. Great accumulations will be made under any free and peaceful government; and it is neither the right of government, nor the interest of society, to interfere to scatter them. The sacredness of property makes a greater demand than the mere productiveness of capital. Besides, this has been collected, and is kept together, by economic virtues, which should ever receive their natural reward. But it is not in the order of things that such mountains of wealth should remain.

(2) Such aggregations of wealth destroy, in great part, the desires which lie at the root of all activity. The spring of industry is want. Let us take into calculation the sum of one million of dollars. It cannot be doubted that this, as a reproductive agency, would be quickened by more desires if in the hands of one thousand men, than if in the hands of only one hundred. Certainly the necessities of each will be more pressing: why not his activities more aroused? How much mightier, then, the current of energy with which the greater body moves on to its object!

On the other hand, if we suppose the sum to be vested in the possession of one person, we shall have

the desires greatly weakened. This is not the man who, "from the rising of the lark to the lodging of the lamb," toils with unrelaxed nerve; to whom every gain is needful bread; from whom every saving removes a pain.

Erskine, as his courage sank in dismay on his first pleading, seemed "to feel his children pulling at his gown," and so took heart to go on. Everywhere it is the hands of the little ones, plucking at the sleeve, that elevates labor into heroism.

(3) Such aggregations draw off an undue proportion of wealth into luxuries. This is the necessary consequence of what has just been exhibited; while its own results will appear more specially in the department of "Consumption."

BOOK V.

CONSUMPTION.

CHAPTER I.

DIVISIONS OF THE SUBJECT.

CONSUMPTION is the use of wealth. It is precisely the converse of production. If production were, on the one hand, the creation of an article, consumption would be its annihilation. But as human labor cannot bring one atom into existence, so neither can it return one to nothingness. Since man's efforts expend themselves in arranging matter into certain desirable forms, so man's satisfactions do, directly or indirectly, soon or late, exhaust those properties or peculiarities of form that have been imposed on matter; and leave it, in the act and for the time, vacant of the elements of value. This result is reached in the consumption of wealth.

There can be no use of wealth, without this change of form; while the merest change of form oftentimes answers all the conditions of consumption. This consumption may be for any purpose,—for luxury, wastefulness, or reproduction; may be within any time,—from the slow wear of the pre-

cious metals to a perishing that is almost simultaneous with the making; may be in any degree,—from a total disappearance, as when wood is burned, to a change which the most practised eye can hardly detect.

The seed is consumed when it is planted in the ground to bring forth one hundred-fold. The cigar is consumed when it goes off in smoke.

Such consumption of wealth is constantly taking place in industrial society; and in this light we see the great importance of the principles which govern in this department: what momentous decisions are made at each change of the form imposed by labor on matter; how the wealth of the world goes up or down, with the new direction given it.

It would be impossible to give a catalogue of all the distinct acts of consumption that take place in the narrowest field and in the shortest time. It might be even impossible to decide distinctly when any one of them actually began or ended; so that, if the science depended on determining them accurately, we should be forced to close our inquiries at once, as useless. No eye can detect their processes; no thought can reach down to the real spring of economical life. But we can find in the general results, as they come out in national or individual experience, enough for practical instruction and guidance.

The consumption of wealth may be regarded as of four kinds,—mistaken, luxurious, public, and reproductive. We shall speak of them in that order.

I. MISTAKEN CONSUMPTION.

What shall we do with that large class of industrial actions which bring no reward to those who perform them?

We find labor and capital applied with the purpose of reproduction, but without result. And this not occasionally; but the share of failures can almost be determined with certainty, and is found to bear no inconsiderable proportion to business enterprise the world over. Indeed, in some occupations, entire success forms the exception.

These cases of mistaken industry would present very few questions but for the secondary uses to which we sometimes find them applied. Gibbon describes the towers, citadels, and palaces of Rome as built on the foundations of the ancient temples, theatres, and arches. We can draw a figure thence to our modern industry. The fortunes of one generation often rise from the failures of that which went before. If we trace the history of many of the most flourishing establishments, we shall find them resting at last on some great outlay of capital, or expenditure of labor, that ruined some man or corporation, and finally went to pay taxes or office rent. Such has been the fate of many of the railroads of the United States; so much so, that it has passed into a proverb that such stock must be sunk once to pay at all.

The same thing occurs frequently in the course of individual enterprises. Men undertake great matters, launch into immense expenses, and, after sink-

ing the full amount of their capital and credit, stop hopelessly. The works stand idle and melancholy for years, till some new industry or some shrewder manager takes them at half cost or for nothing, and gets a fortune out of them.

When one of the later emperors would build a monument of his achievements, he was forced to use fragments of older architecture; and so, history tells us, the head of Trajan frowned from the arch of Constantine. Many a modern fortune is pieced out of the wreck of earlier industry.

1st. Capital is fallible in its calculations. Plausible schemes, based on views that are partial or temporary, draw even the ablest financiers into such investments. It would be out of reason that such errors should not be committed, even with the keen scent of personal advantage and trained observation.

2d. Extravagance is a frequent cause of business failure. Men, in originating enterprises, sanguine in feeling, and exhilarated by the possession of large capital, almost invariably indulge in a scale of outlay which the return does not justify. They find it unpleasant or undignified to omit anything from the completeness of preparation out of considerations of economy. The result is, the expense of starting drags on them through the whole course, and perhaps ruins them.

3d. Another reason is found in those accidents or great developments which transfer business from one seat to another, just as wells give out with no apparent cause. The axis of commerce shifts its place, and leaves tropical bones and tropical fruit high on the northern hills.

Whatever, from any cause, fails to recompense its outlay, though it may still have some utility, is to be considered as so much added to the common agencies of society. If anything comes out of it, this is to be counted as so much received from the gratuitous gifts of nature. Whoever, by shrewdness or chance, has possession of them, is fortunate. A canal or railroad, whose stock has been once sunk, stands in just the same relation to political economy as do rivers and natural causeways, which facilitate travel, and render production easy, but are not capital, in the scientific sense of the term.

II. LUXURIOUS CONSUMPTION.

Luxury,—what is it, and what are its effects, economically considered? Noah Webster defines it as "a free or extravagant indulgence in the pleasures of the table, as in rich wines and expensive diet, or delicious food and liquors; voluptuousness in the gratification of the appetites, or the free indulgence in costly dress and equipage." We must give a far wider definition for our purposes, in the science of which we treat. A fine house is certainly as much a luxury as fine clothes or costly wines; so are statuary and paintings; so are a vast number of articles of common consumption in every condition of life. It is quite clear, too, that what would be esteemed a great extravagance in the royal establishment of Dahomey would be far otherwise in the humblest dwelling of Europe.

It is apparent that a *specific* definition of the term "luxury" is impossible; yet we can give a general

formula that will be sufficient for our purpose. Luxury in the community is indulgence in those expenditures which are beyond the reach of the great mass of the people: luxury in the individual is indulgence in those expenditures which are beyond the strict necessities of maintenance, according to the customs of the social or economic class to which he belongs.

Of course, this standard will vary in different countries, the inhabitants of one being able to command many indulgences which are denied to others. The luxuries of Europe are daily fare in Asia, while articles of common decency in an Irish hovel are unknown in the court of Delhi. Nor only this: the scale of luxury changes with every year. Those articles which in one generation indicate wealth, become common property in the next. This results from the general progress of society and the constant advance of economic powers. As production rises, it covers the monuments of earlier taste or grandeur.

The ground of luxurious consumption is, perhaps, best determined by the boundaries of its neighbors. It embraces nothing that is spent in the purpose of a reproduction, more or less immediate and direct. The *necessary* consumption of a people depends chiefly on absolute wants, is not greatly a matter of choice, fancy, or taste; but its luxuries, those things which it may or may not have, depend entirely, for their kind and degree, upon moral and intellectual characteristics. Consequently, they furnish an index of the national civilization.

1st. Do luxuries directly encourage industry?

We shall reach the truth of this by illustrations.

When William IV. came to the throne of England, he erected a tower at one of the entrances of the palace where he made his residence. It cost $500,000. There was no pretence of utility whatever in the building. It was pure luxury. It was an elegant structure. It gratified the monarch's taste. It was highly ornamental to the castle and the grounds. What was the economical effect? The erection gave employment to mechanics and laborers; it made a call for materials and architectural skill; it made trade brisk in the neighborhood. Was it therefore beneficial? Suppose it had accorded more with his majesty's views to take the same money, and with it erect two hundred cottages on the crown lands, at an expense of $2500 each. This would have called for as much labor and materials as the tower; would have given as great an impetus to trade. At the same time, it would have brought into existence comfortable residences for the families of two hundred laborers. If the cottages were rented at a moderate rate, the income would be equal to a fair interest, and the dwellings would stand for generations, a valuable property, conferring happiness and comfort on a thousand people.

But there is more to come. We said, "take the same money." What money? Whose money? Now, in arguments for govermental luxury, it is always assumed that the money is in the treasury. But how came the money into the public coffers? Who furnishes the money? The sober, steady industries of the country. The money to make King William's tower came from Leeds and Sheffield and

Manchester. It encouraged one class of artisans. True. Whom did it discourage? A class that is always out of sight in such reckonings,—the class that pays the taxes.

Then, so far, it only amounts to changing the capital of the country from one hand to another; employing one class by turning off another; a change that is never made without distress and loss.

There is still more to be said. If the wealth had remained in the hands of the manufacturer, say, it would have been capital, and supported workmen this year. So has the tower. But, in the latter use, next year it will be no longer reproductive; while, in cotton-spinning or land-draining, it would grow with every day, and furnish unfailing employment for labor. A thousand dollars *spent* in luxury will pay a thousand dollars of wages (less certain little items). A thousand dollars *employed* as capital will, in ten years, pay twenty thousand dollars of wages. Such is the difference in results.

Wealth, employed as capital, is an annuity made out in the name of the laborer, and good for life. There is no possible case in which its employment for purposes of luxury, as opposed to reproduction, can be said directly to advantage industry.

2d. Do luxuries indirectly encourage industry? Here we must turn sharply on our previous decision, and see a further meaning in luxurious consumption than first appeared. Unquestionably, a wholesome luxury is one of the most important principles of production. What is it that kindles the desire of acquisition; that keeps the hand strong to labor? Is it not the hope to spend? For what else, the

wretched miser excepted, do men toil early and late? It is the promise of future enjoyments that calls out half the work of the world.

There is one practical limitation of this principle, which is of great social and economical importance. It arises from the relative position of those who do, and those who as yet cannot, indulge in luxurious consumption. If a few are very rich, and the many very poor, the expenditures of the former have very little effect on the condition of the latter. Since these cannot aspire to the enjoyment of their superiors, their ambition, instead of being excited, is depressed. If, on the contrary, the interval between the classes is narrow and the differences moderate, the luxuries of the rich exert strong and increasing desires in those who are less wealthy. These desires create wealth.

The luxury of European courts has no elevating influence upon the masses: quite otherwise. Robbed to furnish the means of others, they are hopeless of ever attaining to such fortune themselves. But where the grades of society are fixed only by differences of natural endowment, and so are moderate and regular, rising by easy steps, the entire population becomes inspired with the purpose of reaching a higher position.

We have, then, attained the principle, that luxurious consumption, while it directly gives no help to industry, but rather spends in one hour's enjoyment the provision of months or years, may yet, by its influence on man's desires, create a productive force which shall make its extravagance seem economy, its waste appear frugality itself. But this is only

true of harmonious, temperate, and well-proportioned luxury.

Such is luxurious consumption, in its definition and its general principles. We shall further discuss the degree to which it is, or may be, carried in any community.

CHAPTER II.

ON THE DEGREE OF LUXURIOUS CONSUMPTION.

We mistake, if we attribute luxuries to the rich alone. It is estimated, on the best authority, that of the taxes paid by the laboring poor of England, out of every twenty-one shillings, eleven shillings and fourpence were paid for what was, in the economic view, not necessary, and, in the sanitary view, not beneficial. If we estimate the amount expended for luxuries by the corresponding class in our own country, we shall find it as much greater as nature is more liberal, labor more free, taxes lighter, and the working-man more ambitious and sanguine; while, if we turn to France, we find the proportion much smaller; yet even here the laborer has his holiday, and his theatre or fair.

Paradoxical as it may sound, it may be said that a certain amount of luxuries forms a part of the necessary wages of the laborer in these countries. Indeed, it is true of all countries; for the human

mind and the human body will have rest and recreation in some form. Man is not all laborer. Some indulgence is the demand of that part of his nature which looks out on another field than production and accumulation. And in this light we see the vast importance of such social and moral influences as shall determine the laboring classes to those relaxations and amusements which really refresh both mind and body, and elevate the whole tone of being.

National taste determines, in a great measure, the demands of wages. It is only required, by our present object, that we take a good look at the luxuries of the poor; not by any means grudgingly. Indeed, we may ask why laborers are not everywhere allowed more time and means for enjoyment, outside the dull routine of work and the dry subsistence of life. It is a wise and Christian statesmanship that seeks to enlarge the simple pleasures of the poor. As the intelligence of laborers increases, and their political franchises extend, they will assert a larger share of the products of industry; and very much of this will go into what we call, not invidiously, luxuries.

But it is with regard to the richer classes that the question of luxuries becomes especially important. The amount of wealth directed to these objects can hardly be over-estimated.

The excise and customs authorities of Great Britain recently made an attempt to ascertain the shares of certain articles consumed, severally, by three classes into which they divided the population of the

kingdom. The result is shown in the following table:*

Class.	Persons.	Tea consumed.	Sugar consumed.
1st. Upper . .	1,000,000	17½ per cent.	22½ per cent.
2d. Middle . .	9,000,000	38 "	38 "
3d. Lower . .	18,000,000	44½ "	39½ "
	28,000,000	100	100

In these simple articles, which are almost included in the strict necessaries of life, we see the great excess of the expenditure of the upper classes. When we rise to take in services of plate and sets of jewelry, galleries of pictures and parks of deer, studs of horses and packs of hounds, we shall be impressed with the immensity of outlay devoted to the luxuries of society.

1st. What are the causes that set wealth apart for luxury?

(*a*) The most essential is the existence of a surplus. Other things equal, the degree of luxury will be as the surplus. The latter, however, will depend not so much on the general mass of wealth as on its apportionment among producers.

(*b*) The desire to gain and the desire to spend are antagonistic. They meet in every act of life, and one or the other must have its way. Luxury is the victory of the latter passion. The mere possession of a surplus is not enough.

2d. To what extent can wealth be devoted to luxury?

Gibbon gives countenance to the theory, that no state can, without soon becoming exhausted, sup-

* Levi on Taxation.

port more than a hundredth part of its population in arms and idleness. This is to be understood as a hundredth part of the population, taken out of the able-bodied males; say, a twentieth part of these. The estimate is interesting, and has a certain share of truth; but its form shows it to be a very rude one. Does it make no difference whether this portion is simply unproductive or destructive? Does it make no difference whether these idlers are maintained in the dreamy, half-naked indolence of Asiatics, or in war and the luxury of courts? no difference whether the general production of the country is large or small; whether the wants of the people and the necessities of government are few and simple, or many and great; whether rice enough for a year can be had by the labor of two weeks, as in India, or a bushel of grain costs the labor of eleven days, as in Lapland?

It is in this light that we see the impossibility of fixing, for all nations, all climates, all ages, a common proportion of luxury that can be maintained, without bringing down the standard of industrial well-being. At the same time, it is plain that for each nation, at any time, there must be a point beyond which wealth cannot be spent in enjoyment, or time in idleness, without first oppressing the laboring class by hard exactions, and afterwards debasing the entire state.

OF LEARNING AND ART.

These, in the economic view, may have value, and so may be produced, exchanged, distributed, and consumed. The reward they receive, the price they

bring, is in no sense due to them in their own right, because they are true, beautiful, or good; but arises legitimately out of the desires they gratify, and the labor they cost. It is the appreciation of a service rendered. That reward will vary in form and degree, at every stage of society.

While the rewards of learning and art are uncertain, and apparently wayward, they have yet, from the earliest days, had a place with the most substantial industries. Whatever may be true of the quality of such productions, the amount of labor bestowed on them obeys strictly the same laws of supply and demand which govern the growth of cotton or wheat. Economical science has no occasion to take them out of the same category. When one man gives his efforts to any work of this character, and finds one other who has a desire for it, that work begins to have value, comes hereby into the domain of political economy, and must submit to its principles. Milton, chaffering for the price of "Paradise Lost," forms no royal exception to the sovereignty of the empire he has entered.

What is the character and effect of such consumption? This is a question doubly interesting, having an importance to general scholarship, as well as to our immediate science. Of course, learning and art have not necessarily to establish an economic usefulness, in order to justify their pursuit. In their own names, they have sovereignty, and claim homage. But there is an economic relation which we cannot overlook, and which must affect, somewhat, the place which they shall be accorded in the world. In brief, their effect upon industry may be defined

as follows: So far as they give dignity to human aspirations, furnish new objects to human desires, enlarge ambition, develop the useful sciences, and suggest the application of new powers, as the telegraph, the locomotive, and the magnet; so far as they unite and harmonize social and political divisions,—they are of inestimable value; and such consumption of wealth as rewards and encourages them is seed thrown into a soil more grateful than any land of fable or story. But so far as learning and art tend to produce that unmanly sentimentalism which shrinks from dry details, present duty, and simple fact; that mawkish cosmopolitanism, which weakens each nationality, without promoting the union of all; that softening of the mental fibre, that dissolution of the will, which makes man the slave of his circumstances, and even of his fellows; and, worst of all, that selfish fastidiousness which shuts itself in from human activities and social alliances, to dwell in dreams and idle imaginations, whether of philosophy or art,—why, in so far, we must call such an employment of time and labor, not merely unprofitable, but mischievous, consumption.

SUMPTUARY LAWS.

No subject stands so peculiarly related to scientific inquiry as this. There is no scheme of governmental action which can present a more clear and convincing argument, drawn from the nature of things, and even from experience, prior to actual legislation; while none has been more effectually exploded by trial. There seems to be a perfect

reason for sumptuary laws; yet the general sense of civilization has, after full experiment, settled decisively against them.

It is impossible to look about the smallest community, without being grieved at the manner in which much of its labor and wealth is expended. What enlightened person can pass once through any street of human habitation, without seeing very many instances of folly, extravagance, perversion, and indolence, which are wasting the best gifts of God and the fairest hopes of man? And, when this view is carried out to all the communities of a nation, it is not strange that philosophers and statesmen have come to believe most earnestly, that by salutary curbs on expenditure and spurs to exertion, by reforming dress, diet, equipage, and establishment, they could multiply manifold the comforts of the people, the resources of the state, and the means of social and moral culture.

And yet nothing has more utterly and conclusively failed. It is not that the evil is imaginary; for enough wealth and power are wasted to make every human being comfortable and happy. It is not that the state of things is unsusceptible of reformation; for the matter is one wholly of human choice, and open to the control of the public sanctions.

Why, then, has law, acting to this end, failed of its purpose so universally and so manifestly, that such enactments are hardly ever proposed at the present day, even by the most sanguine of philanthropists?

It is difficult to give a full and satisfactory expla-

nation. One reason is, that such enactments are very easy of evasion. Expenditure is not a matter that submits readily to inspection and proof. The interest of the producer and of the desire of the consumer are against the enforcement of the law. Then, again, luxury can take on so many forms, can slip so readily from the grasp of definitions and specifications, that the law becomes a greater trouble to its officers than to its offenders.

The grand reason, however, is that it is against human nature; and with this we may fairly close our objections.

But all these furnish no conclusion against the regulation of public morals and manners in things that affect the happiness and safety of the community. It is no longer legislation to supplement the wisdom of the individual or instruct industry. It becomes the defence of the general good. It is not a breach of personal rights, but the safeguard of public liberty. If there is any habit or practice which brings disease and suffering and disorder, which abridges the power of labor and the span of life, which inflicts misery upon the innocent and unoffending, which entails expense upon the whole community for the charge of pauperism and the punishment of crime, there can be no doubt of the right and duty of the people to protect themselves, through the power of their government, by the most severe and efficient laws that can be devised. To deny this is to deny the validity of government itself.

PUBLIC CONSUMPTION.

There is an economical reason for government. Without the strong arm of the public force, men could not work unmolested, or retain the results of their labor. Without law, production would be hindered directly, by the confusion of society and the interruption of violence. But far more serious would be the secondary effects on industry. All motives to the accumulation of wealth would be withdrawn, by the insecurity of property. Its possession might even become an object of terror.

To what share is government entitled in the genral production? If, as we have seen, it is the indispensable condition of all wealth, it can rightfully claim a part of all wealth; and that part will be, *at the least*, enough to sustain itself in this economical function. It owns just as much of this wealth it has helped to create as is necessary to continue itself; for, without this, wealth could not be. The absolute necessities of government, then, afford the minimum measure of its share in wealth.

Has government no right to more than what is essential to its support in this economical function? Its industrial work embraces a wider field than appears in the simple statement. In America, education is required as a part of the public police; and our eminent statesmen have estimated the outlay of schools and colleges cheap, in the results on order and security. Government may employ means of influence, numerous and remote, all in the interest of peace.

But has it no right to property beyond this? Plainly it has. We must not be as stringent in our scientific views as young Gobbo, and complain that "this making of Christians will raise the price of pork." Political economy recognizes that humanity has other interests than wealth, and respects the claim of government to duties and services for the sake of a moral good.

Having defined the right of government economically to participate in wealth, two considerations naturally precede the discussion of methods:

1st. Government should undertake nothing that can be accomplished by individual enterprise.

If we admit that the difficulties which surround industry are imposed for our good, and form a part of our discipline and culture, political society palpably acts on a false idea when it relieves the citizen of his own proper responsibility, care, or labor, and assumes his natural duties. This, however, is not the only reason against such interference. Government never does the work of individuals as well as it can be done by individuals.

It cannot be too often or earnestly insisted on, that individual, interested supervision is the grandest economical condition, and should never be departed from till the work becomes too vast for single hands.

2d. Government should do nothing for display.

For ages the science of politics might be summed up in the word "pageantry." To dazzle the vulgar eye, and overawe the common sense of the people, by splendid equipage and stately building, has been the main theory of rulers. The system certainly has not failed for want of trial. There have been gov-

ernors who wisely sought to prove that the power of the law and the peace of the subject did not depend on show. The simplicity and austerity exhibited by Carus of Rome, Julian of Constantinople, Elizabeth of England, the Great Frederick of Prussia, and the Saracen caliphs in all ages, stand in marked contrast with the wicked and ruinous extravagance that has marked the administration of most of the governments of the world.

3d. The expense of government will vary according to the circumstances and character of the people.

Some peoples have a government as simple, primitive, and cheap as their clothing; while others, no more highly civilized, manifest an inclination to complicated and refined forms of administering law, which bring a heavy burden of taxation on the present, and entail permanent debt on posterity. Some nations surround themselves with fortifications, and maintain extensive forces, just as some countries can keep out the ocean only by artificial dikes and levees; others have a natural strength, or an isolation, that is as good to them as strong armies.

Russia spends yearly three dollars a head in governing her people and supporting her armies; Prussia, five dollars; the United States, up to 1860, two and a half dollars, reckoning only the federal establishment; Great Britain runs her expenditure up to ten dollars. Political economy has great charity for claims based on public considerations. It allows that whatever is really necessary for peace and order and property, in full view of the national peculiarities or geographical difficulties, is economically well spent and a good investment of capital.

Yet government charges heavily for what it does. The expenditure of the United States, even if no attempt is made to liquidate the public debt, will not, probably, be less than three hundred millions; and this, exclusive of all the service of State and municipal government.

On the whole, it may be said of this duty of capital to support government, that it pays, as an investment, whatever it may necessarily cost; but that the expense should be strictly held down to the lowest practicable figure.

CHAPTER III.

CHARITY AND POOR-LAWS.

In the United States, the question of charities has not that engrossing interest which it commands among the older peoples of the world. Land here is so cheap, labor so much in demand, that no able-bodied man has any excuse for pauperism. And even many of those disabled by severe accidents are yet competent to earn something for livelihood, in a country where every hand is wanted for work. It is probable that the pauperism of the nation is not, in ordinary times, equal to one-half of one per cent. of its population; while England and Wales had, in 1859, four and a half per cent.; Holland, in 1855, eight and a half; Belgium, in 1846, sixteen; East and West Flanders rising that year to thirty per cent.

The methods of charity have not, therefore, the same importance with us which they bear elsewhere. It is a matter of profound concern with others, that pauperism should be in every way discouraged, and that what of it is necessary should be as cheaply arranged as possible. Here, the only occasion for anxiety is, lest some unfortunate should be overlooked in the general prosperity of the country. It will not, however, be without interest and instruction to regard carefully the practical principles which should govern the administration of charity.

1st. What classes are entitled to charity?

Manifestly all who are unable to subsist in common decency without it.

But should government provide nothing for those who, having wantonly wasted their means and gifts of labor, find themselves, and those dependent on them, suffering for the necessaries of life? We answer, that the liberty of the subject is not a privilege to become a pauper; that government has the right to protect itself; that it may, by stringent enactments concerning vagrancy and indolence, anticipate the operation of such causes; that it may encourage industry by rewards, or compel it by pains and penalties; that it may apply to vicious pauperism the same severity as to crime. Yet, when all this is granted, and all this done, there will still remain a certain degree of physical want, the result of sinful and slothful habits. Of this the state must have charge.

2d. Who should administer charity?

An argument might be made from the principle of benevolence and the sensibility to another's dis-

tress found in the constitution of our nature, that charity was not alone designed for government, but that the relief of the poor is appropriate to private hands. And there is a plain, economical reason, in that such contributions can be made more timely, more judiciously, and more cheaply, by the offices of individuals than by public agencies. There is a further reason, not less economical than moral, that assistance rendered in this form does less hurt to the feelings of the recipient. The interests of production, not less than the law of kindness, object to the unnecessary lowering of the self-respect of any class or person. To accept charity from a neighbor, under the pressure of extraordinary misfortune, could impeach the honor of no one; but to take bread from government carries with it a sort of taint of beggary through life.

Here, then, in individual contributions, we have one of the main instruments by which the relief of the poor should be effected.

There is another class of voluntary agencies, standing between individual charity and that of the state, consisting of mutual-relief societies and trade associations, established for the purpose of assisting their members over the rough places of life. When honestly formed, and held to their legitimate work, they have, economically, all the advantages of division of labor. With this they unite a considerable share of intelligence, as to the special deserts of applicants. There is also, and principally, the consideration, that relief from this source is thought to have nothing degrading, and so preserves the self-respect of those who receive the aid.

Yet all these methods cannot be relied on, by themselves, for all times and at all places. The state should assume the responsibility and control of the poor everywhere. It is a part of the national concerns that no subject shall suffer from want. After all that individual and associated charity can do, there will be an immense amount of the most repulsive and unromantic want and misery awaiting remedy by government.

3d. By what branches of the government should public charity be administered?

We answer, that, in the mere relief of poverty, local authorities be charged with the dispensation, though the state may, and indeed should, compel them to do it, and perhaps regulate the degree and manner of it. Wherever a pauper has his residence, there he should receive whatever assistance he is to have. More work can be got out of him, his character and claims will be better understood, he will be nearer to returning into the condition of self-support, and each community will have an active interest to diminish its pauperism. All this is additional to the greater expense of monster workhouses, and the corruption they are sure to breed.

We said, "in the mere relief of poverty." But government charity has to do with other classes with which the rule of assistance is directly opposite. Hospitals for the disabled, asylums for the insane, schools for the blind, — these should be aggregated to secure the best scientific treatment and the greatest natural advantages.

4th. To what extent should charity be given?

To the full extent of the necessities of the sub-

ject. The destitute, whether maintained in their own homes or in public institutions, should be required to do all the work they are able to perform. This is just; for the government has the right to diminish its own burden. It is kind; because, by keeping up their habits of industry, it preserves self-respect and bodily vigor, and may in time enable them to return to a condition of self-support. To render any more assistance than is really necessary, is not to relieve pauperism, but to encourage it.

Poor-laws may be effective, to the full extent, in providing for all pauperism that results from natural or accidental disability of body or mind for self-support. Government may relieve every form of such distress with entire satisfaction of the individual need, and with perfect justice to the community. But as soon as the necessities of a people bring able-bodied workmen within the scope of poor-laws, it is certain that, while temporary relief should be afforded, the remedy must be sought elsewhere. The reason is as follows: Charity to the disabled is simple gratuity, wholly outside the laws of value, and involving a definite expense; but charity to the laboring class is an absurdity, only explained by the wickedness of human institutions. It is an absurdity liable to indefinite repetition. It indicates that the point has been reached below which oppression and greed cannot go. Poor-laws, permanently embracing in their charity able-bodied workmen, simply show that the gratification was long since abandoned; that comfort was afterwards denied by oppressive requirements or restrictions; and that now the lowest plane

of injustice has been reached, in the inability of the laborer to support himself. There is no further descent; nor have poor-laws any virtue to bring back the right order of things. The great, the sole, regulating principle of economical life, viz., the entire self-sufficiency of labor, has been destroyed; and nothing but laws returning labor to its own full rights, not affording it charity, can restore health and harmony. There is no proper ground for charity but the inability to labor; and, when under the stress of government injustice and social falsehood, it departs from these limits, it begins a wandering that has no end. The pauperism of America is the result of accidents, and expires with its special causes. The pauperism of Europe is the effect of system, and perpetuates itself.

5th. In what spirit should charity be administered?

In that of kindness and respect. No condition of life and character is so abandoned that it needs or deserves that marks of ignominy should be attached. When the murderer, with his bloody hands, is to be executed, the sentiment of the community shrinks from the idea of adding insult to his doom. He is treated among no magnanimous people with contumely or outrage. If his manhood is respected, even in his crime, should not those who are the victims of misfortune, or at the worst of only passive vices, be free from more than the disgrace which is necessary to their condition? It is unchristian, it is cowardly, to insult by word or badge the unfortunates of society. No true man will do it: no brave people will allow it to be done.

Yet there should be no weakness or paltering in charity. While all harshness and contumely are avoided, public maintenance should never be made desirable to the able-bodied workman, nor should even the feeble be allowed to escape just so much of labor as their condition permits. This is justice to the community, and kindness to the unfortunate. Especially should the public sense discourage and banish that shameless and obtrusive medicancy by which the bold and bad snatch away the portion of the weak, the honest, the retiring poor. The truly helpless and suffering should be sheltered under the wings of charity; the indolent and wasteful, driven out into the storms of the world.

CHAPTER IV.

I. THE FINANCE OF WAR.

THE finance of war is greatly perplexed to the popular mind by one fallacy, which is, that a vastly greater amount of *money* is needed in time of war than of peace. Bewildered by this notion, than which none can be more absurd, the public are easily induced to sanction a whole class of measures that would be generally recognized as injurious in ordinary times, but are imagined to have some virtue to bring out a greater amount of money to meet the supposed emergencies of war. The truth is, if we

suppose no extra importation of foreign material for consumption (and nineteen-twentieths of the expenditures of all wars are for domestic labor and material), there is no larger production, no more commodities to be exchanged, no more services to be rewarded, and consequently no more occasion for the use of money.

But *government* now becomes the great operator, employs perhaps ten times its usual number of agents, expends ten times its usual resources. It then has need of more money: but as it only takes the place of former employers, of former consumers, so it only needs to take their place in the receipt of money; and that may be effected by prompt, equal, and thorough taxation,—taxation, too, conducted by the established methods, and in accordance with such principles as we have laid down. A state of war, therefore, instead of being, as it is usually made, a reason for departing from the ordinary rules of public economy, is an additional reason for adhering closely to them in every particular.

War is a business as much as agriculture. The same resources are necessary: there must be materials, provision, tools, labor. This is all that is needed in either; nor is there the least difference in the two, considered as modes of production: their principles and methods are the same. It is only when considered as modes of consumption that they have separate relations to the science of wealth. "Raising money" has been generally accepted as the great business of a nation in war; but it is no more so than in ordinary times. What is wanted are labor, tools, provision, and materials: these are what

must be "raised." And at least an equal amount, though of different kinds and for different purposes, is "raised" every year or day of peace. Government, however, is now the great employer; and, as it is to furnish these, it must get them from the community which has them, and has been operating them.

Indeed, war might be carried on without money; has been, to a great extent. The state might always fill, as it often has filled, its armies by conscription; its granaries, by a tax in kind; its arsenals, by compulsory labor. The greatest armies the world has ever seen were raised, supported, and disbanded without a money chest. In the advance of civilization, it has been found more expedient, as it is more just, that government should purchase all it consumes in war, obtaining the means in money by taxation. As war does not increase the number of laborers or augment their power in production, it remains true that there can be no greater occasion for the employment of money, whose only office is to exchange the products of labor.

It may be thought that if foreign labor (as mercenary soldiers) or foreign material (the products of foreign labor) is introduced, there will be a greater demand for money to make the exchanges of services and values. Of the first, it may be said that the employment of mercenaries is, in fact, too small to be of any account in the great calculations of war-like expenditures. The latter is of importance, but really forms a small fraction of the actual outlays of war, probably not equal to the reduced wages of domestic labor in arms, as against the same labor in

peace; it being true of almost all armies, that their pay is below the average of industrial occupations. But, if we allow all the actual importation of foreign materiel to be so much added to the necessity for money, the effect will be simply what has been already indicated in the philosophy of currency. Money will be exported up to a certain point to pay for imports: this will lower home prices, diminishing the domestic expenditures of government, and encouraging the export of produce, which will continually tend to restore the balance. Beyond the point at which money cannot be sent off, without domestic distress, government must resort to credit by loans. Such loans, however, cannot increase the money in the country; for, even if they first assume that form abroad, they are turned into *materiel* before imported.

This discussion, it should be borne in mind, has only regarded the amount of *money* required in war. We have had nothing directly to say as to the amount of capital employed. Of this we express no opinion; while we maintain that it is unquestionably true, that no greater volume of money is needed to effect all the exchanges incident to a state of war.

ECONOMY OF THE WAR SYSTEM.

War is the greatest fact that presents itself in this part of our general subject. Its consumption, its expenditures, are wholly for unproductive purposes, and not only unproductive, but absolutely destructive of those by whose labor wealth is produced.

War demands by far the largest part of all the revenues of civilized governments throughout the world. It therefore claims consideration as far as our limits will permit.

That war is a political necessity while no preparation is made for preserving peace, cannot for a moment be denied. So also were private combats and the wager of battle in by-gone ages. Disputes will ensue between nations as between individuals; and, if no provision is made for umpirage or arbitration, a resort to the sword is inevitable. Hence the great system of war. But for established laws and courts of justice, individuals would, of necessity, be compelled to seek redress for private grievances by an appeal to brute force. This would not, indeed, determine which of the parties were in the right, only which was the stronger or more fortunate in the struggle. So of nations. When differences arise between them, how can they be settled except by a trial of strength? There is no well defined, well-established code of international law; there is no tribunal of international justice: how then, except in battle, can their disputes be adjusted? It is a well-established principle, that a man should not be a judge in his own case; and therefore, as between individuals, it is decided that, instead of the wager of battle, the aggrieved party shall submit his case to the arbitrament of his fellow-citizens. But, as between nations, no such arrangement has as yet been made.

Hence we are to contemplate war as a political necessity, until the nations of the earth shall establish a code of international law, and institute a high

court of appeal, to which their disputes shall be referred for adjudication.

War, then, in the sense in which we are to look at it, is not an accidental fact, but an established system; and, as an economical question, is to be regarded from three different points of view.

1st. As consisting of a permanent military force, a standing army, with all the paraphernalia of war; and, if the nation be maritime in its position, a naval force, somewhat proportioned to its military establishment.

2d. A system of constantly increasing preparations for war,—arsenals, dockyards, and manufactories.

3d. A heavy indebtedness for wars of the past, with unceasing taxation for the payment of accruing interest and the extension and perpetuation of the system.

These three items may be said to constitute the war system of the civilized world at the present day. Looking at war in its economical bearings only, the great feature that presents itself is the immense and constantly increasing expenditures it requires.

In proof of this, we first refer to the statistics of Great Britain, not because they are peculiar, but that they are full and reliable. Her naval and military expenditures from 1815 to 1865, during which period of fifty years there has been no protracted war, have been £1,084,330,507, equal to $5,000,000,000, or twice as much as the whole present debt of the United States: from 1855 to 1865 inclusive, £769,612,936, of which £301,618,920 were required to pay interest on the national debt; £331,887,258 for current expenses of army and navy; for the cost of collection,

£48,733,823 (or about six per cent. of the whole revenue); and only £105,472,935 for all the expenses of civil government. So that, in paying interest upon the debt wholly created in war and in meeting present expenses, the war system swallowed up six-sevenths of the entire revenue. And that which is true of Great Britain is to nearly an equal extent true of France and almost every nation of Europe.

The armed forces of Europe now (1871) are supposed to be equal to near five millions of men, all told, and the grand total of war debts some fifteen billion dollars.

Another important point to be noticed in relation to the war expenditures of European nations is, that they have been constantly increasing, and at a fearful rate.

The increase of taxation in England between 1863 and 1865 was fifteen millions sterling per annum over the previous decade. The cost of the army, navy, and ordnance combined, in 1835, was less than twelve millions; in 1850, it was fifteen millions; in 1861, it had increased to thirty millions sterling.

Between the years 1842 and 1853, the income of the wealth of Great Britain was at the rate of twelve, and her expenditures were at the rate of eight and three-quarters, per cent.; while, between 1853 and 1859, the national wealth grew at the rate of sixteen and a half, while the national expenditure was at the rate of fifty-eight, per cent.

France is almost crushed under the excessive burden of debt which her vast military system and the disastrous results of her late struggle with Prussia have entailed upon her.

IS WAR A MORAL NECESSITY?

We have said that, under existing circumstances, war may be a political necessity; but is it a *moral* necessity? Is there anything in the nature of man which makes the destruction of his fellow-men in war unavoidable? Is it not as feasible and as consistent with his nature to dispense with appeals to brute force among different communities, as between different individuals in those communities? Would not the same principle, the same common sense, which establishes a court of justice for the settlement of private disputes, establish a similar tribunal for the settlement of international differences? If it is indispensable to the preservation of peace among individuals, that there be a well-defined code of laws, which all may understand, and all must be required to obey, is it not equally indispensable among different communities?

At present, as we have said, there is no established code of international law, or any common tribunal for the settlement of international disputes. Is the attainment of these admittedly important objects practicable? In what manner can they be secured? Evidently in the same way in which all social institutions are formed; viz., by the voluntary, harmonious action of those who are directly concerned. And this can only be secured by concerted and concentrated effort. This is a necessary preliminary. Is it feasible? Can the human mind achieve this advanced step to a higher condition?

We answer these questions, without hesitation, in the affirmative, and for the following reasons:

First. Because the present system is at war with the plainest dictates of common sense, and the highest interests of mankind.

It may be safely assumed, that any system, policy, or practice which, in the course of events and the lapse of time, has become, not only absolutely useless, but positively pernicious and absurd, cannot long continue; that the advancing tide of intelligence will sweep it away as the rubbish of the past.

Each nation, as we have seen, has its standing army, its navy, fortifications, dockyards, arsenals, etc., etc.; and, consequently, each is endangered by the military and naval preparations of every other, and they live in constant mutual jealousy. Hence there is an unceasing competition. One nation adds to its naval and military armaments because, and only because, the other does, and still both are *as relatively defenceless as ever.* This is, and has long been, the universal European policy; yet is it not irrational?

Secondly. Because the changes which are continually taking place in the machinery of war are so great and frequent as to forbid *all hope* that nations can ever be fully prepared for war. What terrible engines of destruction, what unheard-of forces, are yet to be brought into use for the destruction of mankind? The mind stands aghast at the awful possibilities of the future, if the present senseless and inhuman competition in war preparations is to be continued. The moral sense of the world revolts at the thought of such stupendous folly and crime.

A *third* consideration which leads us to expect that the present war system will be superseded by a

general confederation for the preservation of peace that all the si influences of the age are against its barbarities.

(*a*) Commerce, as well as common sense, makes a strong plea in favor of peace. Extending with almost inconceivable rapidity, its influence is every day advancing, and its interests becoming more identified with the harmony of nations.

(*b*) The rapidly increasing intercourse by travel between the different peoples is making them more acquainted with each other, and dissipating much of that ignorance and prejudice which, in times past, has been a prolific source of jealousy and distrust.

(*c*) The education of the masses, their gradual progress in knowledge, and their growing influence in public affairs, is another very hopeful indication. The people are being enlightened, and are becoming too "wise" to be made the dupes of a system of which they are the greatest victims.

But our *fourth* reason for expecting that the great object of disarmament will be accomplished, arises from the consideration that public sentiment has been evidently turned in that direction for the last fifty years, and much has actually been done towards bringing the subject directly before the different nations.

Associations have existed for a long time, whose object has been to bring about permanent and universal peace; and one of the prominent measures insisted upon as necessary to this end, has been a congress of nations. And lastly, we hope much from the pacific settlement now in progress between Great Britain and the United States, by which dis-

putes of the gravest character have been submitted to peaceful arbitration. The Treaty of Washington, under which this has been brought about, forms a new era in diplomacy; and the court of arbitration now assembling at Geneva establishes a precedent that we may reasonably anticipate will hereafter be accepted for the honorable adjustment of differences between independent sovereignties, however great and powerful.

CHAPTER V.

ON THE ECONOMY OF PUBLIC EDUCATION.

It is difficult for Americans to sympathize in the least with the objection which is made in England, even by those distinguished for liberal sentiments, that compulsory education is a breach of the liberty of the subject. Our incapacity for understanding or even respecting that sentiment arises from the fact that such education was early made one of the foundations of our social and political organization, and we have grown up to regard it as an accepted principle of good government. Our intolerance of the English theory, however, is not helped by the consideration that the support of a particular religion is made compulsory by the British government.

The economic results of public education are manifestly in two directions.

1st. It is intended to effect the prevention of pau-

perism and crime. To use a popular American phrase, "It's cheaper to build school-houses than jails." In looking at this matter, we need to take a view between that of the optimist who expects the extinguishment of sin and vice by the advance of knowledge, and that of certain grossly material philosophers who compose statistical tables to prove that general enlightenment rather encourages crime. The first notion is refuted by sad experience. We may fairly decline to consider the second till it re-receives the sanction of one practical statesman. Such is the theory of our government on public education.

2d. Public education is intended to bring about, positively, a higher economical condition.

It is mind that gives man power over the brute creation; and it is by enlarging and instructing the mental power that the greatest possible factor is introduced into his effort.

We do not speak now of the education of the laborer in art and science for their own sake, but solely for his advancement as an individual being; nor do we refer to the indirect influence on social order and national power, enlarging the desires, stimulating the activities, and promoting the frugality of a people. We allude only to the education of all who labor, whether as masters or apprentices, inventors or drudges, governors or soldiers, in order that they may more intelligently and efficiently discharge their parts in production.

It pays to do so. A few years of boyhood spent in practical studies has taken many a man out of the class of day laborers, and placed him among those

who superintend the work of hundreds, or by scientific discovery multiply the power of industry manifold. Nor is it alone in these marked cases that a fortunate result has appeared. It is perfectly practicable in any country to raise the whole body of the people one distinct grade in industrial character; to make every hand and every eye more strong and accurate, while giving to each the *repeating power of mind.*

It is not only demanded in the interest of a greater production, but also to secure a more just and uniform distribution of wealth. The more highly educated, industrially, the workman is, the firmer and apter resistance will he offer to the aggressions of capital or competing labor; the higher will become his necessary wages, the more reasonable his remuneration. It is the poor man's share of wealth which, after all (while we respect the rights of capital for its own sake no more than for the welfare of labor), is the object of humane science and legislation. A great conflict between labor and capital is now imminent throughout the civilized world; but if there shall ever be a good and satisfactory solution of the great question at issue, it will be because the capitalist and the laborer have been alike educated to understand the laws of wealth, and the true relations between the two great competing but not antagonistic forces of production.

CHAPTER VI.

POPULATION.

The question of population has been invested, by the treatment of British writers, with great mystery and terror. The glut, famine, and death theories of Malthus have done much to impress upon political economy the shape it has to-day in the world's estimation. Rightly enough, if they are correct, is it called a dismal science. Malthus exhausted the direct horrors of the subject; but the effect was greatly heightened by the benevolent efforts of many subsequent writers to provide some way of escape from this fatal conclusion,—efforts which, as they resulted in palpable failure, only made the outlook of humanity more dreary and hopeless.

The fact is, all this British philosophy of population is perverted and diseased from its root. It comes out of social wrongs and false political institutions. It strives to apply, as a universal condition of human being, the miserable results of local misrule. Prior to all consideration of such arguments, there is reason to suspect theories of subsistence and population that come from an island where holdings of land are only as one to six hundred or seven hundred inhabitants.

These principles are intended to apply to the entire surface of the earth, and have no merit unless capable of such extension; but, to give them their

most favorable conditions, we will first consider a single district of limited area,—say, England itself.

Two postulates are often assumed: 1st, that subsistence is stationary or retrogressive; 2d, that propagation is a constantly operating force, enlarging population in some assignable ratio. The inference is, that the relation of these two must bring out destitution and famine.

There are here three fallacies: 1st, that subsistence is not progressive; 2d, that population necessarily increases; 3d, that, even if these were granted, there would exist between them any such melancholy relation as is assumed.

1st. Subsistence.—The fertility of the earth, instead of diminishing, is, under intelligent culture and with the aids of science and machinery, constantly increasing. The advance of industrial power, in commerce and manufactures, not only furnishes direct assistance in agriculture, but releases, if required, a great amount of labor for the latter pursuit. As is the amount of labor applied to land, so is the yield the world over. The England of to-day is vastly more fertile than that of the Heptarchy, the Norman conquests, or the civil wars.

2d. Propagation.—The rule of geometric increase is a favorite weapon in the defence of certain theories; but it is wonderfully far from the truth of nature. Boys have frequently exhibited, on the blackboard, the immense wealth they could acquire if they should lay by a penny a day, at interest, for so many years; and the result seems very alarming, as if that particular school would eventually become the owners of by far the greater part of the earth's

surface. So much for mathematics. But, in fact, some days the boys don't earn their pennies, and some days they don't lay them by, and some of the boys die; and perhaps the bank unfortunately breaks, or, after a few months of continence, a juvenile rush is made upon it, and all hopes of fortune disappear in a saturnalia of candy and ginger-pop. The illustration is plain and humble; but it involves all the elements that limit the theoretic advance of wealth or population.

Contemplating certain positive unquestionable facts in history, great instances of depopulation, ages of decline, the slow advances of reviving production, we may fairly begin to doubt whether propagation is a permanent force irrespective of conditions. We may not unreasonably inquire whether it ever appears without *a special reason in the case;* whether the rule is not the other way; viz., not that population does not proceed in spite of adverse influences, but that it is never called out except by physical circumstances, which, in all their contradiction and bewilderment to us, really form the condition precedent of human reproduction. Why not? We do not say that individual *growth*, either vegetable or animal, is a constantly operating force, irrespective of circumstances. We recognize the necessity of heat, moisture, and special properties of soil to educe the latent powers of expansion. Similar, though more remote and perplexed, are the influences which bring out *reproduction* in the animal or vegetable. It is therefore more correct to say that population, instead of being limited by adverse, is only developed by favorable, conditions. We are deceived in this

matter, since propagation acts almost universally. That happens simply because the favorable conditions are nearly universal.

3d. The third fallacy we detect is, that, granted the two postulates of stationary subsistence and advancing population in any country, there is any necessary relation of distress and deterioration between them. Such a view puts commerce out of the question. In the present state of the world, the only matter of interest to determine in regard to the supply of any people is whether they are able to produce values sufficient to command in exchange the commodities they must consume. It is of no consequence whether Manchester and Birmingham can raise their own breadstuffs within their corporate limits, if they can create values which will lay all the markets of the world under contribution. Labor, if law does not hinder, is self supporting. The powers of industry are commensurate with their wants. But, if legal and social institutions interrupt or burden exchanges, in one way or another, distress will result. There is no fault in human propagation, but in what is subsequent.

In England, bad laws, passed by class legislation; oppressive institutions, the relics of feudalism; onerous taxation, incurred by the senseless war system; and unjust monopolies, created for selfish purposes, —have combined to cause the ignorance, poverty, and degradation of the people, and to make the beneficent agencies of reproduction a partial curse. The laborers of England suffer for the commonest necessaries of life, while England is the richest nation on the face of the globe. Unquestionably the

value of the total production of English industry amounts to five times the value of the simple necessaries of life for her whole population. Now, if labor starves, is it the fault of nature? The density of population has nothing to do with it. It is because the common people have so little influence on the government; because the land is held for the pleasures and dignity of the lordly few; and because the national majority is borne down by a powerful, selfish, and grasping aristocracy.

If now we extend our inquiry from England to the whole industrial world, we shall bring another element into the calculation, not to increase the chances of distress by over-population, but to diminish them. Whatever may be true of individual peoples at any particular time, the general advance of population all over the earth has not been very clearly proved. But, whether it has taken place from century to century or not, it certainly has not progressed in the last five centuries at so rapid a rate as the means of subsistence; nor is there any ground for believing that the present advance will, the world over, continue when the means of subsistence shall become stationary. There never has occurred a case of starvation in the history of the world which resulted solely from a deficiency in the natural means of procuring food; and there is no reason to believe that there ever will be one. There have been countless millions of deaths from hunger occasioned by the destructiveness, envy, or heedlessness of man, through war, commercial restrictions, or personal neglect.

4th. The fourth cause which we shall notice is alto-

gether different in its origin and character. The others have all been on the brutal side of man, operating by misery and want. This works in alliance with the nobler part of his being, and is of a kind with reason. It is self-restraint. In a degree, indeed, a great part of the world exercises this. The Chinaman will rear as many children as he can find vermin for as food; but the Hindoo, through his religious faith, stops short of all animal food, and limits population by vegetable subsistence. And so almost all nations have a point of decency below which they will not go. But the self-restraint of which we speak is of a higher kind, and begins to operate before the senses revolt in disgust or pinch in hunger. It is found wherever there is self-respect and social consideration. Hence the moderate increase of many countries where population maintains a just proportion to the general wealth, taste, and customs. As this is a subject to which belongs illustration rather than analysis, we give at length a remarkable example, which will also enable us to set in contrast the operation of the other causes. We take the State of Massachusetts, of which, let it be observed, only a very small class is influenced by luxury, and a smaller class even affected by destitution. Vice and misgovernment certainly work as little injury here as in any portion of the world.

The annual registration, made with much care, shows the following result in regard to births among the native and foreign population in 1860 :—

Native population, whole number of persons	970,952
Foreign " " " "	260,114
Number of births in native population	16,672
" " foreign "	16,138

The number of births in the native population, to be in proportion to the foreign, should have been 60,239, or nearly four times the actual number. This difference is still more remarkable in the census returns of 1870:

Whole population of the State	1,457,351
Native population	1,104,960
Total foreign born	352,391

From the Registration of the State of Massachusetts for 1870, we learn that the whole number of births was 38,259, equal to 2·62 per cent., viz.:

Of foreign parents	18,339
Of American parents	15,563

The American births then were equal to 1·4 per cent. upon the native population, while the foreign births amounted to 5·2 per cent.

Besides this, there were of mixed parentage:

Foreign father	1,787
Foreign mother	2,256
Total	4,043

or 10½ per cent. upon the whole number of births in the Commonwealth.

From all this, it appears that the foreign is gaining relatively upon the native population by natural increase at the rate of 5·2 to 1·4, or within a minute fraction of 4 to 1; and this may be assumed with considerable probable correctness as equally true throughout the different States of the American Union.

To offset this in some measure, we have the well-known fact that the mortality among children is far greater among the foreign than the native popula-

tion. The difference is very striking and suggestive. It may be accounted for in part by the following considerations:

(1) A very considerable share of the foreign population consists of those under fifty years of age, and so generally able to contribute to the increase of population. How far this fact is operative may be seen in the statement, that, if all persons above fifty were removed from the native population, it would be diminished somewhat over one-sixth; that is, brought so much nearer the numbers of the foreign.

(2) The foreign population is engaged somewhat less than the native at in-door and sedentary employments, and in so far are likely to be more vigorous.

(3) But the grand cause for the remarkable difference we have observed is found in the fact, that the foreign population are far less influenced by prudential considerations and social restraint. They therefore enter the marriage state with less regard to their ability to support a family respectably. Destitution, in the sense which restricts propagation, hardly exists among them. Indeed, it may be said that they are actually richer, according to the standard of living they were accustomed to at home, than are our native population. Consequently, they do not for a moment hesitate to marry from any fear of want or of losing caste by poverty.

On the other hand, the resistance to marriage from a more costly style of living, is constantly increasing with the native population, among whom the standard of family expenditures rises rapidly with the finer culture, the more elegant arts, and the greater social vivacity of each new year. The foreign popu-

lation can get food, shelter, and clothing of some kind. That is their idea of life. Why, then, should they not marry, and rear families? To show how this cause operates to produce marriage among them, we refer again to the statistics of Massachusetts (1860):

American marriages	7,381
Foreign "	4,057
One party foreign	943
Nativity not stated.	447
Total	12,828

In 1870, the marriages were:

American	8,360
Foreign	4,271
Mixed	2,075
Not stated	15
Total	14,721

According to population, the purely American marriages should have been about 18,000, or considerably more than twice the actual number. Here we find the force of social restraint acting on the native population.

Such, then, are the principal causes which limit population. The course of propagation, as affected by subsistence alone, may be described as follows: From a given point destitution will bear it down by the most painful pressure, involving social and individual misery and degradation. Under a scant and difficult livelihood it will bear upward by its inherent forces, but slowly and with constant opposition. Competence gives it an assured and regular course; relieving from all considerations of physical maintenance, but substituting therefor healthful and har-

monious restraints, hardly less powerful. Under these influences, society gains in wealth, leisure, and comfort, and is able to organize, educate, and control its population. Every child born into this condition may be born to health and happiness, and to be a strength and ornament to the state.

We have thus far spoken of the reproductive forces without recognizing the differences originating in diversities of climate and ethnical stock. These unquestionably exist, and greatly modify the facts of propagation; but, as they are local and peculiar, we shall enter upon no discussion of them.

CHAPTER VII.

IMMIGRATION.

No other country is so much influenced in its population by immigration, probably, as the United States. The whole number of persons of foreign birth arriving from 1820 to 1870 was 7,803,865. The number in the country by the census of 1870 was 5,566,546, showing that of the whole number of immigrants for fifty years 2,237,319 had died or left the country. We make the following comparisons, drawn from facts found in the last census:

1. Total foreign born, as above	5,566,546
2. Total having both parents foreign born	9,734,845
3. Total having one or both parents foreign born . .	10,892,015

Deducting No. 1 from No. 2, we find the number

of persons born of exclusively foreign parentage to be 4,168,299, equal to near eleven per cent. of the entire population of the country.

Deducting No. 2 from No. 3, we have the number of children of mixed parentage 1,157,170, equal to near twenty-five per cent. of the entire number born exclusively of foreign parents. This fact is interesting, as showing the rate at which amalgamation is taking place between the native element and the foreign.

In looking at the statistics of immigration for several years past we find that 3,857,850 arrived during twelve years ending December 31, 1870. This number is equal to one-half of all that have arrived since 1820, so that the immigration of the last twelve years is equal to that of the thirty-eight years preceding, that is, in a more than triple ratio.

Two prominent questions present themselves in regard to the effects of immigration: first, upon the general wealth of the nation; and secondly, upon the rate of wages.

That the aggregate wealth of the country is increased by great influx of foreign laborers there can be no doubt, because, as a general fact, they produce of values more than they actually destroy. They open and improve farms, they build houses, and make improvements which are of a permanent character, and, therefore, the general inventory of wealth must be enlarged. Whether the average wealth per capita has been increased by the immense immigration of the last twelve years is uncertain, nor is it of much importance.

Effect on wages. In regard to this point we may notice the fact that, notwithstanding the large im-

migration of the last fifty years, the rate of wages, not only nominal, but real, has been constantly increasing. The explanation is that the immigrant is a consumer as well as producer, and consumes, in some form, all he produces,—that is, he uses in the supply of his daily wants, or for a farm, a habitation, and their indispensable appendages, all that he earns. The labor market is really no more crowded than if he had stayed at home. His wants demand all his labor and supply; therefore immigration has no tendency to reduce wages, and will not have, until our vast capital in virgin lands has been absorbed and put to use.

EFFECT OF IMMIGRATION ON THE CONDITION OF THE NATIVE LABORER.

Has the physical condition and social position of the native laborer been unfavorably affected by the influx of foreigners? We answer in the negative, because the general intelligence and enterprise of the native population are far in advance of those of the classes who come to this country to find employment, and consequently the former take the lead in all industrial undertakings. Visit our great workshops and factories, and who are the leading workmen, the overseers, and managers? Foreigners? Very seldom. So in regard to female labor. Thirty years ago the operatives in our mills were American children and girls. Are they so now? Certainly not. Their places have been taken by Irish, French, and other immigrants, and the young women and children of American descent are in better employments, with increased compensation.

Looking at the results, then, the native laborer has nothing to fear from this influx of foreigners. The development of the natural resources of the nation is hastened by it, while the original inhabitants, so far as wages and the rewards of labor are concerned, are improved rather than injured thereby.

Chinese immigration. All this is more emphatically true in regard to the Chinese laborer. He is docile, industrious, economical, and has all those habits and traits of character that fit him for a useful employé. Like a labor-saving machine, he produces commodities at a less cost than other laborers, and the advantage inures to all others as well as himself.

That there is a great difference in the physical and moral quality of immigrants arising from ethnic peculiarities and characteristics, there is no doubt; that some are far more desirable as settlers and citizens than others cannot be disputed, but American institutions receive all, tolerate all; must educate and elevate all, fusing the whole if possible into a homogeneous, enlightened, and prosperous people. Such is the grand experiment upon which for weal or woe the American republic has entered.

CHAPTER VIII.

IMPORTANCE OF A RIGHT CONSUMPTION.

This has been already shown by the light of our definition of consumption. It has all the importance which belongs to the science itself.

Consumption makes use of the wealth which production has brought about with all the world's industrial energy. It determines how each appreciable atom shall be applied: whether to degrade, or to elevate; whether, like fruitful seed, to reappear in harvest, or, like a virulent acid, to destroy the very vessel in which it is placed; whether to set forth the humble household of the laborer, or to gleam a moment in the halls of revelry; whether to feed a thousand workmen on the temple of national industry, or to melt out of sight, like Cleopatra's jewel, in wanton luxury.

All the moral and social interest that belongs to wealth, belongs to its use; for as that is right or wrong, healthful or hurtful, so wealth itself is a blessing or a curse; so science should strive after it with earnest efforts, or guard against with the same wise precaution and thorough research which keep out the plague.

There is a right consumption of wealth that would bring comfort, health, and education within the reach of every human being not born incapable of receiving them; that would make poverty impossible on the earth; that would dispense with half the

inducements to crime; that would beautify every home, and lighten every work. It may not be wise to expect the quick attainment of such a result, or worth while to prepare our robes for such an ascension of humanity; but just as far as the consumption of wealth can be affected by human laws, or customs and agreements, in so far may this end be approached in every day of time. It is only one part of this possibility at which the poet looked, when he said,—

> "Were half the power that fills the world with terrror,
> Were half the wealth bestowed on camps and courts,
> Given to redeem the human mind from error,
> There were no need of arsenals and forts."

The mind can hardly lift itself to see—

> "What might be done, if men were wise."

Yet political economy is a "dismal science," indeed, if we cannot look on to the gradual amelioration of our human condition, not by miracle from the earth or the air, but by a wiser use of wealth, for kind purposes created and bestowed,—

> "All slavery, warfare, lies and wrongs,
> All vice and crime might die together;
> And wine and corn,
> To each man born,
> Be free as warmth in summer weather."

Not only does all the advantage of present or accumulated wealth depend on the use made of it in consumption, but the very existence of future wealth is decided on the same ground.

We have said that wealth has its generations. The life of man is brief, but he outlives property. A few

articles of value may endure for centuries; but, in the average, their term is very short. Simply by wear and tear, the earth would be left destitute in a few years, if no provision were made for reproduction. Our kind is placed on the verge of such a chance, and can never go away from it. The dreary desolation of many nations illustrates the tremendous possibilities that lie in the *use* made of wealth.

We are accustomed to things as they have been. It is difficult to appreciate even that which we know might be. There is no economical reason why every people on the face of the earth should not be rich, prosperous, and independent; every person free, comfortable, ambitious, with plenty at hand, and everything to hope for. As it is, the homes of competence or decency are, the world over, hardly more than islands struggling up from the ocean; a few spots redeemed from misery and ruin.

This advance towards economic good is not a piece of work to be paid for only when finished. If the grand result seems hopelessly distant, every step towards it does yet receive its reward; every effort brings something of fruition. No government or individual conforms, for a single act, to right principles of consumption; but the community gains palpably by it: perhaps the "last straw" of taxation is removed, or a capitalist offers employment to a starving workman.

There have been efforts to restrict political economy, so that it should have no occasion to ask these questions; to cut off all that view which looks out on the field of reproduction; to shut up our inquiries to the immediate, present creation of wealth,

its exchange, distribution, and consumption, without regard to ultimate effects, and considering one article of value as equally commendable with any for which it will exchange. Such a mode of treatment practically detaches the department of consumption from the science.

A sagacious and generally correct writer* has even gone so far as to announce, "if a laborer is willing to work all day for a quart of whisky to get drunk upon, political economy does not question his wisdom."

It is, of course, within the discretion of any author to confine his inquiries so narrowly, and to erect them into a consistent system; but such a system will have little of that interest which attaches to a scheme that considers the industrial interests of man as a whole, and for all time. It may be *a* science of political economy, but not the science, as we choose to regard it.

If the laborer expends his day's earnings on a quart of whisky, he will, most likely, be disabled one day after. The account with society will stand, at the close of the second day, as follows: one day's work done, of which the employer, and consequently society, has the advantage; no wages laid up; something taken off the health of the laborer, and the order of the community. But if the earnings are spent on tools or the education of self and family, or on personal support, the account will read quite otherwise: two days' work done, of which the employer and society obtain the advantage; two days'

* Prof. Newcombe, in his "Financial Policy."

wages in the hands of the laborer, to be applied to the rearing of a useful and self-respecting family, to the maintenance of government, to the increase or perfection of tools, or to wholesome enjoyment and culture.

It is not, of course, possible, that, from a moral standpoint, there can be any question as to the importance of a right consumption; but does not the same interest attach to it in the light of political economy, considered merely as seeking to effect the largest production, and the most beneficent distribution of wealth? We do not ask whether such inquiries cannot properly be received into the science, but whether any scheme can be respectably complete which does not embrace them. It must not, of course, look at any question in a purely moral light. Yet the two interests will not be found widely and permanently apart. Political economy has for its end the economic good of society on the whole, and in the long-run.

We have used a phrase which explains itself, and which has already received various illustrations in what has gone before. But it may be worth while to fix and detain in positive shape the general impression we have of it.

WHAT IS THE ECONOMIC GOOD?

It is that application of the industrial faculties to the agencies of matter which will bring out, easiest and fullest, the satisfaction of those desires which are healthful and harmonious in the nature of man.

Does this imply the satisfaction of the greatest

amount of desires, if, indeed, they can be thus spoken of in aggregation? Not necessarily, by the terms of our definition; yet practically we believe it is true, that, taking in all of life and the whole of society, a *greater* satisfaction will be obtained by ministering to those desires which are natural and reasonable, than by catering to artificial tastes, depraved appetites, and violent passions.

Does it imply the greatest possible creation of values?

Again we say, not necessarily; and yet it is undoubtedly true, that there is no surer way of securing the *best* satisfaction of the greatest amount of desires, than by striving for the accumulation of the largest possible wealth. There may be, will certainly be, a portion of such wealth that does not tend to improve its possessor, either as to character or condition; there will be a portion that will not receive its best application, either morally or economically, just as the nourishing rain falls not less on the streams that do not need it, and on the stony ground that will not profit by it, than upon the grass and the grains that are thirsty for it, and will repay it in a plentiful harvest. But this is the way of earth. If human laws and institutions do not interfere to prevent, the natural order of things will be sure to bring out the best physical condition of mankind, through the *greatest creation* of values.

It will be observed, that this definition of the economic good requires an equitable distribution of wealth, since the desires of one can be but poorly satisfied out of the possessions of another. We should therefore regard with more complacency a

certain amount of values, fairly divided, than a much greater amount heaped in wasteful and unjust aggregations, or bestowed on those that can neither employ nor enjoy it. But this, again, we leave to the operation of natural laws, when undisturbed by legislation and prescription, confident that a better state of things will result than can be brought about by man's wisdom.

To sum up, then: Although much may be produced that does not satisfy any wholesome or lawful desire of man's being; although much inequality and injustice may take place in distribution, which shall so far neutralize the bounty of nature, and the industry of man; and although the greatest wealth is not logically coincident with the highest economic good,—we can yet accept the former as the end and aim of our science, satisfied it is in this shape that the latter is to come to us.

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THE END.

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